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THE MERGER MOVEMENT: A STUDY IN POWER

THE EDITORS

LENIN AND STALIN

HARRY BRAVERMAN

LAND REFORM IN IRAN

FARHAD KHAMSI

Notes on the Current Inflation

NATHAN SPERO

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EDITORS: Paul M. Sweezy, Harry Magdoff
Leo Huberman (1903-1968)

NOTES FROM THE EDITORS

Stanley Moore's article in this issue, "Utopian Themes in Marx and Mao: A Critique for Modern Revisionists" was inspired by the editorials on Czechoslovakia which appeared in last October's issue of MR, but it goes far beyond that subject to deal with basic aspects of Marxian theory. It seems to us that he demonstrates rather conclusively that Maoism, using the term in the broadest sense (which in this context would include Castroism), is the authentic representative of Marxism today and that the alternative to accepting it is to reject what Professor Moore calls the "utopian" elements in Marx's thought, i.e., the entire theory of the transition from a lower to a higher stage of communism (or, in Lenin's terminology, from socialism to communism). We doubt that the opponents of Maoism in the world communist movement will welcome this blunt spelling out of the logic of their position.

We have received a communication from four Spanish publishing

(*Continued on inside back cover*)

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THE MERGER MOVEMENT: A STUDY IN POWER

During the last year or so a tremendous amount of publicity has been devoted to the corporate merger movement, but to our knowledge there has not been much serious discussion of its significance. A review of some of the outstanding facts and what they mean and do not mean may therefore be useful.

To begin with, there can be no doubt about the impressive magnitude of the movement, measured by any relevant standard. The following table is constructed from Federal Trade Commission data as reported in *Business Week* of April 19:

	1966	*1967*	*1968*
Total number of acquisitions	1,746	2,384	4,003
Number of mfg. and mining companies with more than $10 million assets acquired	101	169	192
Value of assets of acquired companies with more than $10 million assets (billion $)	4.1	8.2	12.6
Number of acquisitions made by 200 largest companies	33	67	74
Value of assets of companies acquired by 200 largest companies (billion $)	2.4	5.4	6.9

Complete data for early 1969 are not published in the article from which these figures are taken, but one statistic alone is enough to show that, far from coming to an end, the merger movement has actually accelerated in recent months. As against the $12.6 billion dollars of assets in companies with assets of $10 million or more which were gobbled up in 1968, the comparable rate of acquisition so far in 1969 has been running at about $18 billion.

As to the size of the present movement relative to earlier merger movements in U.S. history, *Fortune* magazine (February 1969, p. 80) states: "There have been merger movements in the U.S. before. One began in the 1890's and another in the 1920's; each lasted about a decade. But the current merger movement is lasting longer and is immensely bigger."

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It is more difficult (and indeed may be impossible) to gauge the effects of the merger movement on the relative importance, in the economic system as a whole, of the giant corporations. The reason is that mergers (in Marxian terminology, the centralization of capital) are not the only factor operating here. In addition there is what Marx called the concentration of capital, which takes place through the growth of the separate companies rather than through their combination. The two forces—centralization and concentration—operate simultaneously and reinforce each other. Some idea of their combined effect in the postwar period can be gathered from the growth of the relative share of value added in manufacturing accounted for by the 200 largest manufacturing companies from 1947 to 1963. The figures stood at 30 percent in 1947 and rose to 37 percent in 1954 and 41 percent in 1963.*

There has certainly been a further increase in the relative importance of the giant corporations since 1963, but, for reasons just indicated, it would be wrong to attribute this entirely to the merger movement. In fact, even if there had been no mergers at all, the giants would still have grown, relative to the economy as a whole. This follows from two well-established facts: (1) On the average, the bigger a corporation is, the higher its rate of profit.** And (2) the more profitable a company is, the faster it can grow through the internal accumulation of capital. Big companies therefore normally grow faster than small ones and correspondingly take over an increasing share of the total economy even without any merger activity at all. Mergers undoubtedly hasten the process, but they are by no means essential to its functioning or continuation.

In assessing the economic significance of the merger movement, a further consideration needs to be taken into account. As a capitalist economy passes from its competitive to its monopol-

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* Data for 1947 and 1954 from a Senate committee report, cited in Baran and Sweezy, *Monopoly Capital,* p. 226n; and for 1963 from a special report "Corporations: Where the Game is Growth," in *Business Week,* September 30, 1967.

** On this, see the recently published study *Profits in the United States: An Introduction to a Study of Economic Concentration and Business Cycles,* by Howard S. Sherman, Cornell University Press, 1968, especially Chapter 2.

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istic stage, certain characteristic features and laws of motion come into operation: absorption of the economic surplus becomes increasingly difficult, and the system is faced ever more sharply with the alternatives of economic stagnation and mass unemployment on the one hand or mounting production for socially wasteful and destructive purposes on the other. It is by no means clear, however, that the further development of monopoly after a certain point will have a proportionate effect on the way the system works. In this connection the performance of the U.S. economy in the 1930's is particularly relevant. The length and depth of the depression from 1929 to 1933 and the fact that the ensuing upswing came to an end in 1937 with more than 14 percent of the labor force still unemployed, suggest that the degree of monopolization reached by 1930 was already enough to dominate completely the functioning of the economy and to prevent it from achieving anything even close to full employment except through massive private and public waste. In other words the kind of viciously irrational and destructive system we have today was fully shaped as far back as forty years ago. Increasing monopolization since then has doubtless made matters worse, but not essentially different.

Let us now turn to the question of the effect of the merger movement—or, more accurately, of the growing relative importance of the giant corporations—on small business. Radicals and anti-monopoly liberals frequently assume that the increasing dominance of the giants necessarily implies the decline and fall of small business. Nothing could be further from the truth. A recent story in the *Wall Street Journal* (April 10) begins as follows:

> Worried that conglomerates are gobbling up companies so fast that by the end of the century some 200 super-corporations will own all of American business?
>
> Take heart. Far more businesses are starting out than selling out these days.
>
> Most of the fledgling firms are small, of course, and many won't last a year, but they are being formed at the fastest clip since the years that immediately followed World War II.
>
> Analysts estimate that between 450,000 and 500,000 new businesses will be launched this year, about 25 percent more than a half-dozen years ago. By comparison, W. T. Grimm & Co., a Chicago financial consulting firm, predicts that some 5,400 com-

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panies will go out of existence through merger or acquisition in 1969.

The government's new-business index, which measures the net growth in business formations (new businesses minus firms that discontinue operations), last December stood at the highest point since mid-1948.

The great majority of these new businesses of course are in either retailing or the service trades, but there are also many in various branches of manufacturing. And far from contradicting the interests of the giant corporations, this proliferation of small businesses serves their purposes in many ways. A detailed discussion of this problem would take us far afield, but it may be worthwhile to point out three specific ways in which the giants benefit from the existence of small businesses.

(1) Every big corporation buys thousands of items ranging all the way from huge machines to paper clips. Many of these are supplied by other big corporations, but many offer too little prospect of profit to interest the big ones and these become the domain of small business. This being the case, the giants naturally prefer that there should be an ample number of suppliers competing among themselves to ensure low prices and good quality.

(2) The markets for the products of the giants typically undergo seasonal and/or cyclical variations. This means that at any given time demand for a product can be divided into a large segment which can be looked upon as stable and reliable and a smaller segment which fluctuates and may even disappear with the vicissitudes of the market. The giants employ various strategies for dealing with this problem, depending on the nature of the product and the market; but in most cases at least one element in the strategy adopted is to allow a number of smaller companies to enter the industry and fill some part of the fluctuating demand. Benefiting from the giants' monopoly price umbrella, these small companies may do very well when demand is strong. The other side of the coin of course is that they may be hit hard or even wiped out when demand is weak. In any case they act as a sort of stabilizer and balancer for the carefully calculating giants.

(3) Finally, much of the innovating function under mono-

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poly capitalism is carried out not by the giants but by small firms, often specifically organized to turn out a new product or try a new method of production or distribution. And this is done not against the will of the giants but with their hearty approval. Innovating is risky. Most small outfits that try it fail, but a few hit the jackpot and it is this glittering reward that motivates a host of new hopefuls to keep at it. From the point of view of the giants all this activity serves the extremely useful purpose of showing which lines of innovation are practical and profitable, with all the risk being borne by others. Later on, the giants can move in, either buying out the successful small firm or imitating its innovation with a version of their own.

There are other business and technical reasons for the existence and spread of small enterprises in the period of monopoly capitalism, but the three described above should be enough to dispose of the unfounded notion that there is any tendency for the concentration and centralization of capital to result in the disappearance of small business. The *relative* importance of the giants grows; but as long as the system as a whole expands (and capitalism cannot live without expanding), this not only does not preclude but actually requires an *absolute* proliferation of the dwarfs.

Our analysis to this point leads to the conclusion that the current merger movement, though undoubtedly massive by historical standards, is not likely to have any profound effects on either the functioning or structure of the U.S. economy. What it means is more of the same, not anything really new. And the same goes for the much-publicized fact that the most spectacular merging activity of the last few years has been by the so-called conglomerates, i.e., companies which operate not in one market or a few related markets but in dozens or even scores of often quite unrelated markets. Two of the top five companies on *Fortune*'s latest list of the 500 largest nonfinancial corporations (General Motors which is number 1 and General Electric which is number 4) have long been conglomerates in this sense; and many, perhaps even a majority, of the others would qualify for the same designation. The real reason for the excitement about the "new" conglomerates lies elsewhere than in their newness.

For one thing, the latter-day conglomerates have been

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heavily promoted by all the devices of the Madison Avenue public relations industry and its Wall Street affiliates and confrères. The conglomerates—along with other corporations like IBM and Xerox which are not conglomerate or at any rate less conglomerate—have been built up as the "glamour" companies. Their masterminds are pictured as financial wizards and/or technological geniuses; their methods and operations are wrapped in an aura of magic and mystery; their potential for growth is blown up to fantastic proportions. A satirical piece in *Barron's* of February 5, 1968, purporting to give advice to the hopeful organizer of a new conglomerate, is worth quoting at considerable length both for its truth content and for its entertainment value:

Thanks for your letter telling me that you'd decided to become a conglomerate. It's about time you wised up and resolved, as they say, to flourish and make megabucks instead of knocking yourself out trying to keep the earnings of your crummy foundry from going down.

You ask how to do it. Brains, guts, funny money, a smile, and a shoeshine ought to be a sufficiency. It's really not much harder or very different from promoting one of those chain-letter games we used to play when we were kids. And don't kid yourself, it may end the same way. But you make a lot more money.

Anyway, the first thing to do is get hold of the speeches and annual reports of the real savvy swingers, who know the lingo and can make it sing. . . .

Actually, for my money, a cat out on the West Coast has the real psychedelic line—it's too bad you're not a doctor of something like he is. This doctor stuff goes over big with the security analysts. Anyway, read his stuff. He's got all the moves.

He made a speech to the San Francisco security analysts, where he talked about "advanced materials systems," "productizing R&D," and "the tools of growth: nucleation, replication, and working the synergies." He told *Business Week* the aim of his acquisition program was to provide "rivers of marketing into which we can feed the higher technology materials and products," and yaks about "the point of nucleation for a large-scale market penetration."

And this from a cat with about two-thirds of sales in defense parts, valves, actuators, structures, and metals brokerage-and-distribution. . . .

In the presentation at San Francisco, the Whittaker guys must have talked at least an hour about technology, philosophy, and the future, and hardly mentioned their present businesses except to

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repeat they were a growth company "in the area of advanced materials systems." Duke bought a fishing rod company . . . and convinced the analysts that he had integrated forward into materials usage. Next it will be further forward integration with a string company, and, of course, with that he's got the perfect hook for a move into oceanography—a very high-multiple area, incidentally. . . .

The point is that you have to project the right image to the analysts so they realize you're the new breed of entrepreneur. Talk about the synergy of the free-form company and its interface with change and technology. Tell them you have a windowless room full of researchers with genius IQ's scrutinizing the future so your company will be opportunity-technology oriented, so it will fashion change rather than merely respond to it like stupid old GM. . . .

If you pull off some good deals, and if the economy stays strong and your luck holds, you'll make a fortune, become a Captain of American Industry, and your stockholders will make some money too. If you pull off some bad deals or the economy goes sour at the wrong time—well, at least you ought to know enough to get out fast.

The purpose of all this fancy public-relations activity is of course to persuade Wall Street that the glamour stocks are worth a lot more than mundane balance sheets and profit-and-loss statements would seem to indicate. The desideratum is to attain, in the jargon of the stock market, the highest possible price/earnings (P/E) ratio. The stock of an old conservatively managed company which grows more or less in step with the economy as a whole (say at a rate of 4 to 5 percent a year) may sell at 10 to 15 times per-share earnings. The stock of a highly jazzed-up glamour company which has been able to show a record of rapid growth in the previous few years may, on the other hand, sell for 30 or 40 or even more times earnings. And therein lies the secret not only of the burgeoning of the latter-day conglomerates but also of the rise to wealth and prominence of a new stratum of the U.S. bourgeoisie. In order to be able to analyze this phenomenon properly, it will be useful to review some of the facts of corporate and financial life.

First, it is necessary to keep in mind as essential background the situation with respect to control of the typical giant corporation. Legally, of course, the stockholders are the owners of the corporation, and managements are simply their agents. In practice, however, the stock of most of the giants is widely dispersed

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among many thousands of holders, with no individual or group owning more than a small percentage of the shares. In these circumstances whatever management happens to be in power can normally remain in power and appoint its own successors.* In their famous work *The Modern Corporation and Private Property* (1932), Berle and Means found that 44 percent of the 200 largest nonfinancial corporations were management-controlled in this sense. An updating study by Robert J. Larner (published in the *American Economic Review* of September 1966) showed that by 1963 this proportion had risen to 84.5 percent. Reporting on Larner's work, *Business Week* put the following caption on a table comparing the situation in 1929 with that in 1963: "Professional managers have won ultimate control almost everywhere among the 200 largest nonfinancial corporations." Of course it is always possible for the management of such a company to be ousted by someone who succeeds in collecting proxies for a majority of the stock, and occasionally this does happen. But pulling off such a coup is very expensive and difficult: all the advantages are with the management, and under normal conditions it can go about its business without fear of attack from outsiders. Or at least that's the way it was until the new conglomerates came along. We shall return to this presently.

Next we need to know something of the way the conglomerates operate: how they grow by taking over previously independent companies and in the process generate the kind of increase in per-share earnings which is so important as a prop and booster to their P/E ratios.

We can distinguish two types of takeover: that which from the point of view of the acquired company is voluntary, and that which is involuntary. A company may want to be absorbed into another for many reasons. For example, a man may have a large part of his wealth in the form of stock in a company which he has built up in his own lifetime. If, as often happens, there is

* In many companies, incumbent managements are the lineal descendants (often in the literal family sense) of managements which were installed in an earlier period by big stockholders owning all or most of the company's stock. In this way the families of these earlier big stockholders often continue to control big corporations long after their holdings have ceased to be a significant percentage of the total stock outstanding.

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no ready market for this stock, his heirs will be in trouble when he dies. They will have a big estate tax to pay and little cash to pay it with; and if they are pushed into a forced sale of the stock, they will probably realize much less than its true value. The obvious solution is for the man in question to sell out while he is still alive and to leave his heirs cash and/or securities for which there is a ready market. And usually the most advantageous way of selling out is to get some big company to take the stock in his company in exchange for an agreed amount of its stock, the reason being that such transactions are tax-free while a sale for cash or debt securities is subject to the capital gains tax. Another common reason why one company wants to be absorbed by another is that it needs capital for expansion and lacks the absorbing company's access to banks and the money market. Or the two merging companies may both want to be part of a larger enterprise with more prestige and less vulnerability to fluctuations in particular markets. In any case, regardless of the reasons a company may have for wanting to be absorbed, the fact that it acts voluntarily greatly simplifies the whole process. Voluntary mergers have figured prominently in the growth of all the conglomerates, old and new, and doubtless will continue to do so in the future.

Involuntary takeovers present different problems, and it is with them that we are mainly concerned in what follows. The acquired company here is usually (maybe always) one whose stock is widely dispersed among a large number of stockholders, in other words a company conforming to the type which, as we have already seen, predominates among the 200 largest nonfinancial corporations. The usual procedure is for the acquiring company to buy up secretly anything up to 10 percent of the target company's stock. (Ownership of 10 percent or more has to be disclosed to the Securities and Exchange Commission and immediately becomes public knowledge.) The next step may be for the aggressor (call it company A) to approach the victim (company B) with arguments and inducements designed to overcome the latter's resistance. If this fails, as it often does, A then plays its trump card, a tender offer to B's stockholders. This is an offer to buy shares in B—either all that are tendered or up to a certain percentage of the total outstanding—at a

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price which is invariably above the current market price and may be far above the market price. Payment may be made with cash or with A's own securities or some combination of the two. Once matters have reached this stage, B's management is all but defeated. Stockholders are an unsentimental lot, interested only in making money. If someone comes along and offers them more for their stock than they can get in the market, most of them will accept. There may be some hesitation when the payment is in A's securities rather than cash, and B's management will do its best to convince stockholders that they are better off with what they have than they would be with what they are being offered. But usually this doesn't work: stockholders who think poorly of A's prospects will simply turn around and sell the securities they receive in payment (at the time of the transaction always worth more than what they give up) and buy other securities which they like better.

How does it happen that acquiring companies can afford to make such generous offers to the stockholders of target companies? Here two factors come into play: first, the arithmetic of P/E ratios and stock prices; and second, the effects of the tax laws, especially in that they treat interest paid on debt securities as a cost which is deductible in calculating net income while dividends are paid out of net income. Two highly simplified examples will serve to illustrate the principles involved.

Call the acquiring company A, the target company B, and the merged company AB. Assume the following initial situation:

	Shares outstanding	*After-tax earnings*	*Earnings per share*	*P/E*	*Price per share*
A	1,000,000	$1,000,000	$1	40	$40
B	1,000,000	$1,000,000	$1	15	$15

At this point A offers to exchange one share of its stock worth $40 on the market for two shares of B's stock worth $30, giving B's stockholders a gain of $5 a share or 33⅓ percent. But they are not the only winners. Assuming that the merged company continues to have a P/E ratio of 40, the combined result will be the following:

	Shares outstanding	*After-tax earnings*	*Earnings per share*	*P/E*	*Price per share*
AB	1,500,000	$2,000,000	$1.33	40	$53.20

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What has happened is that by reducing the total number of shares outstanding from two million to one and a half million, the same amount of earnings produce an increase in earnings per share, and the same P/E ratio yields a higher price for the stock (of which A's stockholders own the same number of shares as before). Everyone, it seems, gains—except B's management which is no longer its own boss and can be kicked out at the whim of A's management. This illustration shows the supreme importance of a high P/E ratio in the merger game and explains the lengths to which its adepts will go to present to the investing and speculating community an image of a super-streamlined perpetual-growth machine. And one of the ironies of the situation is that the more successful they are, the more they can create the appearance of growth (measured by the earnings-per-share yardstick) simply by acquiring more and more companies with lower P/E ratios.

The second example, showing the tax bonanzas that mergers can produce, is adapted from a report headlined "Conglomerate Maze" which appeared on the financial page of the *New York Times* of February 27, 1969. Company A has a million shares outstanding, annual after-tax earnings of $2 million ($2 per share), pays no dividends, sells at $40 a share. Company B has 10 million shares outstanding, earnings of $30 million after taxes ($3 a share), pays a dividend of $1.50, and sells at $39 a share. A offers for each share of B's stock one debenture (an unsecured bond) with a face value of $50 and paying interest at the rate of 7½ percent ($3.75 a year). In order to make the offer more attractive, A also offers to throw in warrants good for the purchase of the merged company's shares in the future, but this does not affect the arithmetic of the immediate situation. B's stockholders thus stand to gain $11 a share in the value of their securities and $2.25 a share in their current income. It is assumed that the earnings *before* taxes of the combined company are the same as they were before, i.e., $64 million. But earnings *after* taxes are now quite different. From the before-tax earnings of $64 million the merged company deducts interest of $37.5 million before calculating taxable income of $26.5 million. After-tax income is therefore now $13.25 million. Since the only shares now outstanding are the one million of A stock,

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it follows that per share earnings of A's stock have risen from $2 to $13.25. The losers this time are the U.S. treasury, to the tune of $18.75 million, and of course B's management. A has in effect acquired B by making use of B's own earning power plus generous government financing, and in the process has added handsomely to the value of A's own stock.

By now it should be clear why any conservatively managed company to which the stock market does not assign a particularly high P/E ratio and which does not have a lot of debt in its capital structure is vulnerable to takeover by one of the high-riding conglomerates which does enjoy a fancy P/E ratio and which has no scruples about going in for debt financing in a big way. And what lends special importance to this situation is simply this: *the category of vulnerable corporations includes a very large proportion of the long-established giants which are at the top of the economic and political power structure of the United States.* Discussing what it called the "conglomerate tide" in a recent issue, *Fortune* magazine had the following to say:

> The tide seems virtually unstoppable; even a sharp stock-market decline, Wall Street believes, would probably stay it only for a while. An important force in the movement is the tender offer or takeover bid, in which the aggressor offers the target company's stockholders a price so irresistible that they tender him enough stock for control. Thus the stockholder, relegated by Adolf Berle and other non-contemporary economists to a limbo of impotent ownership, has found himself inadvertently practicing Stockholder Power. . . .
>
> The targets of this aggression are some of the most upright, prudent, powerful, and self-assured corporations in the land. Self-assurance is fading. Proud old names have already been taken over, and dozens of veteran executives have been sacked. Foreboding, frustration, and fear are epidemic in perhaps three out of five big corporate headquarters. Anguished executives who should be minding the shop are instead behaving as if they were up to some underhanded adventure, spending long hours counseling with lawyers, management consultants, proxy specialists, and public-relations men skilled in the art of forefending takeovers. (Gilbert Burck, "The Merger Movement Rides High," *Fortune,* February 1969, pp. 79-80.)

Later in the same article, the author carries the argument to its ultimate conclusion:

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Sheer size of the target is no longer an obstacle to a paper takeover. A year or two ago, Wall Street jokers remarked that only General Motors and A.T.&T. were safe, but now some of the experts aren't so sure about G.M. "General Motors," argues one visionary financier, "is in many ways an ideal target. It has a low price-earnings ratio, relatively slow growth, large asset base, lots of cash, and high net worth. It is also shamefully underleveraged [i.e., low debt-to-equity ratio in its capital structure]. Like DuPont, from which it inherited its financial policies, G.M. has little debt. G.M. is thus practically a partner of the federal government, which takes more than half its gross profit. As a matter of fact, some have argued that G.M. should have borrowed billions and bought in a lot of its own stock. This would have raised earnings per share and provided leverage—would have enabled earnings per share to rise faster than earnings as a whole.

"Well, G.M. didn't take on a lot of debt. Now suppose some hero conglomerator printed up $15 billion worth of debentures and maybe another $10 billion in stock and warrants. G.M. stock, which pays $4.30, is selling at around $80. Our hero would offer, say, $125 worth of his securities, paying, say, $5 or $6, for every share of G.M. Once G.M. stockholders realized that I.O.U.'s would really be paid out of G.M.'s own pocket, with the federal government footing part of the bill, they probably would trample over one another in the rush to exchange their shares. This may sound unthinkable. But things just as unthinkable are happening all the time." (*Ibid.*, p. 161.)

At this point we must pause briefly to ask who are these high-flying conglomerators who are thus threatening the inner bastions of U.S. monopoly capitalism. And the answer is that for the most part they are "new men" who entered business after the Second World War in a quite specific way. Unlike such men as Robert McNamara, they did not go into one of the big corporations and work their way up (or if they did go into one of the big corporations, they soon left). They started their own enterprises, often getting in on the ground floor of some of the new technologies like electronics or computers, took advantage of the military-powered economic expansion which began in 1948, and naturally began to expand in proportion to the profitability of their various business ventures. In the course of this process they learned the ways of high finance and began to put together what later became the big conglomerates. Thus, for example, James Ling, the architect of Ling-Temco-Vought (number 38 on *Fortune*'s 1967 list of 500 largest industrial

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corporations), was a Navy electrician (no college degree) during the Second World War and started his own electrical contracting business after the war. Out of this grew a conglomerate with sales of nearly $2 billion in 1967. In some ways even more important is Litton Industries (number 44 on *Fortune*'s 1967 list) which grew from a company with $3 million sales in 1954 to over $1.5 billion in 1967. What is particularly striking about Litton is that many of the most successful operators started with Litton and, having learned the art, left to do their own conglomerating.*

For the first decade, more or less, of the conglomerate movement, most of the action took place around the periphery of the corporate establishment. A new stratum of the American bourgeoisie was taking shape outside of, but not yet in significant opposition to, what might be called the old aristocracy of wealth and power rooted in the corporate giants which had pushed to the top in the formative period of U.S. monopoly capitalism (roughly 1890-1929). But it was not to be expected that these parvenu multi-millionaires, many of them among the richest men in the country, would be forever content to remain on the outside of the corporate establishment. So, beginning a couple of years ago, they began to encroach, picking off a big company here and there and causing increasing apprehension among the others.

This process and its repercussions can be traced through three incidents: the takeovers of Wilson & Co. and Jones and Laughlin Steel Corporation by Ling-Temco-Vought, and the attempted takeover of Chemical Bank New York Trust Co. by Leasco Data Processing Equipment Corporation.

On the basis of its 1967 sales of $991 million, Wilson & Co., meatpacker and producer of sporting goods, was well within the charmed circle of the 100 largest nonfinancial corporations and bigger than James Ling's entire Ling-Temco-Vought conglomerate. And yet during that year Ling, through an intricate series of maneuvers and financial coups (including a multi-million dollar loan from a European banking syndicate), succeeded in taking over Wilson and in the process jumped

* For details, see "Litton: B-school for Conglomerates," *Business Week*, December 2, 1967.

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from number 168 to number 38 in the 500-largest list. Other acquisitions in 1967 included Greatamerica Corporation, itself a diversified company owning, among other things, Braniff Airways. And then, just about a year after swallowing Wilson, Ling pulled off his greatest coup, the takeover of Jones and Laughlin Steel Corporation. J&L is the nation's sixth largest steel producer, a long-established member of what *Business Week* (May 18, 1968) called the "tight-knit steel fraternity," and closely allied to its Pittsburgh neighbors in the Mellon empire. This was a classic case of the tender-offer technique: J&L stock was selling at about $50 a share, and L-T-V offered the stockholders a package worth about $85 a share. The result was a foregone conclusion. L-T-V will probably rank among the 20 largest industrials when J&L is included among its subsidiaries.

It was probably this incident more than anything else that caused the state of near-panic in the corporate board-rooms described in the *Fortune* article quoted above (p. 12). After all, James Ling was the very model of a bourgeois upstart. *Newsweek* (October 9, 1967) began a story about his career as follows:

> It wasn't long ago that Dallas oilmen and other pillars of the Texas Establishment had an instant formula for a barrel of laughs: just mention the name of Jimmy Ling. In air-cooled private clubs 40 floors above the sun-blasted streets, the tycoons would sink into their deep, brown-cowhide chairs and poke a little fun at the rising young corporate merger artist from Hugo, Okla.
>
> "I just won't do business with a Chinaman," one oilman would chortle. "Did you hear?" a second would ask. "He's going to take over Bell Telephone next." "What's he going to call it," a third would ask, "Ting-a-Ling?"

This fast operator, but recently a parvenu even in Texas, had now marched into Pittsburgh. What was to prevent him and others like him from storming the ultimate bastions on Wall Street and Park Avenue? The answer was not long in coming and, as could have been predicted, it had two parts. On the one hand, the corporate establishment began to bring its enormous financial power into play; on the other hand, it called on its faithful servants in the seats of government to wake up and do their job.

Both parts of the answer were dramatically illustrated by

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the abortive attempt of Leasco Data Processing Equipment Corporation, a company built up by a 29-year-old financial "wizard" named Saul Steinberg, to take over the Chemical Bank of New York. Leasco operates in and around the computer industry and owns a big insurance company. Though growing rapidly, it was not large enough to be listed anywhere in *Fortune*'s 1968 directory of largest corporations (issue dated May 1, 1968). Chemical Bank (formerly Chemical Bank New York Trust Company), on the other hand, was listed as the nation's sixth largest bank with assets of $8.4 billion. In February 1969, Leasco mounted an attack on Chemical and was obviously preparing the *coup de grâce* of a generous tender offer to Chemical's stockholders. Before the end of the month, however, Steinberg was forced to admit defeat. At the time, the reports in the business press were brief and largely bare of detail. But a couple of months later the real story came out. Here are excerpts from *Business Week*'s article entitled "Why Leasco Failed to Net Chemical" in the issue of April 26th (the whole article is worth reading):

"I always knew there was an Establishment," says Saul P. Steinberg, the chubby, 29-year-old multimillionaire chairman of Leasco Data Processing Equipment Corp. "I just used to think I was part of it."

Leasco's abortive play last February for giant Chemical Bank of New York threw Steinberg against the real establishment of big, conservative money—a confrontation so jarring that Wall Street still clucks about it. In the end, says a Wall Street friend, "Saul found out there really is a back room where the big boys sit and smoke their long cigars." . . .

Chemical Bank is old, rich (sixth-biggest commercial bank in the U. S. with $9 billion in assets), and very powerful. It is a money market bank—a lender to many of the bluest of blue-chip corporations and a big dealer in U.S. government securities. On its board sit top executives of such companies as AT&T, DuPont, IBM, Sears, U.S. Steel, Olin Mathieson, Uniroyal, New York Life, and Equitable Life.

Never has so mighty a bank fallen to an outsider. To Chemical Bank, and to many of its best customers, Steinberg—young, sometimes brash, a Johnny-come-lately, and Jewish to boot—was very much an outsider. "Chemical," says a rival banker, "was afraid of losing a lot of its corporate and personal trust business if Leasco took over. Those people wouldn't sit still for a Steinberg."

The bank was apparently threatened with the loss of some

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business, by customers who didn't want a non-banker in a position to know so much about their financial affairs. . . .

Wall Street's choicest gossip for weeks has dealt with what happened during those 15 days [in February]—or what it thinks happened. . . . One thing that did happen was that Leasco's stock plunged from 140 to 106 in two weeks—driven down, many on Wall Street believe, as bank trust departments sold what Leasco shares they held. . . .

At least one computer-leasing customer—and perhaps more—apparently threatened to take its business elsewhere if Leasco actually made a bid for Chemical Bank. Leasco's prime investment banker, White, Weld & Co., told Steinberg on Feb. 7 that he would have to try to take over Chemical Bank without that firm's help.

Investment banker Lehman Bros. admits that it was pressured by commercial banks to not help Leasco—a ticklish situation since Lehman is a heavy borrower of bank money.

The nation's big banks, rocked by the thought of one of their number being taken over, did cluster together to create what one banker calls "a massive groundswell of opposition that was felt in Washington and Albany. The whole industry was aghast."

In Washington, Chemical Bank found support high up in the Nixon administration, in Congress, and among the financial regulators. In Albany, New York Governor Nelson Rockefeller asked for immediate legislation to shield banks in the state from takeover. A comparable bill, covering national banks, was introduced in Congress on Feb. 28 by Senator John J. Sparkman (D-Ala.), chairman of the Senate Banking and Currency Committee.

It isn't clear how much of a hand Chemical Bank had in all this. In fact, as one man on Wall Street points out, "Chemical didn't have to do very much. It had so many friends, and every one wanted to help."

As it turned out, the corporate establishment's counter-attack in the Leasco-Chemical affair was only the opening salvo in a full-scale campaign to put the parvenus in their place. During the week of March 24th, the Justice Department, in what *Business Week* (March 29) called "Washington's first all-out assault on the merger-hungry giants," filed an anti-trust suit to separate Jones and Laughlin from Ling-Temco-Vought, and at the same time forced Ling to accept an agreement whereby, pending the outcome of the suit, J&L would be maintained as an organizationally independent entity, so that if the government wins J&L can be shifted to new ownership with a minimum of difficulty. Ling, it seems, is to be made to pay for approaching as near as Pittsburgh to the inner sanctum.

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Finally, *Fortune,* in its "Report from Washington" column in the issue of May 1, really pulled the curtain aside and showed what has been and is going on behind the scenes. Here are excerpts from another piece (captioned, appropriately enough, "It's open season on conglomerates, and established business couldn't be happier") which deserves to be read in full:

> Washington in recent years has shown about as much interest in conglomerate mergers as in the prospects of the Washington Senators baseball team. The Justice Department under Lyndon Johnson did not view conglomerates as much of a threat to competition, and the Federal Trade Commission, after blocking Procter & Gamble's takeover of Clorox in 1967, became passive. . . .
>
> Today, by contrast, antitrust and conglomerates would seem to rank only behind Vietnam, the ABM, and inflation in the capital's interest. A dozen federal investigations are under way into the antitrust aspects of conglomerate mergers. A slew of bills are before Congress to block airline and railroad mergers. Representative Wilbur Mills has introduced a bill to remove tax incentives to takeovers. Banking conglomerates . . . are the target of strict administration legislative proposals. For his part, the government's new trustbuster, Assistant Attorney General Richard McLaren, has launched this spring a broad legal attack against mergers. Of twelve recent large conglomerate mergers, five have been challenged by the government.
>
> The result—not wholly unintended, perhaps—of these myriad federal moves was to knock more than $5 billion (21 percent) off the market value of thirteen conglomerates' shares between January 27 and March 24 and, consequently, dampen their merger potential. . . .
>
> This sudden free-form, uncoordinated attack on mergers has surprised even such dedicated antitrust Democrats as Representative Emmanuel Celler of New York and Senator Philip Hart of Michigan, who chair, respectively, the House and Senate judiciary subcommittees on antitrust. "I never thought that I would see the day when the business community would be pleading with the federal government for an investigation of business. But that is exactly what has resulted from the merger practices of some of our leading corporations." . . .
>
> The events that triggered Washington into action are not hard to discern. It was not the number of mergers or the concentration ratios, but rather the threat to the established way of doing corporate business. "For years nobody paid a damn bit of attention to my antitrust hearings. But now such nice people are being swallowed up," says Senator Hart. . . .

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Despite the near unanimity in the capital about the present dangers of mergers, there is in some quarters considerable support for James Ling's complaints about Washington's "conglomerate syndrome." . . . Even Senator Hart notes acidly that many of the proposals are not "referring to established conglomerates like General Electric, or R.C.A. or I.T.T. They are referring to the brand-new ones who are threatening the old-line companies." . . .

So much, then, for the attempts of the parvenu outsiders to crash the corporate establishment. They threw a scare into the big boys all right, but the latter now seem to be in the process of demonstrating that they still have what it takes to maintain a monopoly of real power in corporate America.

What lessons are the underprivileged multi-millionaires likely to derive from this experience? We don't know for sure as yet, of course. But it does seem likely that they will draw the obvious inference that economic and political power cannot be separated. If you want the one, you must aim also for the other. This consideration may lead them next time to try first of all to get control of the crucial legislative and bureaucratic agencies in Washington which could help rather than block future forays into the inner corporate circle. And for this they would need a political instrument to use against the corporate-establishment-controlled Republican and Democratic parties.

Upstart capital has always been an important source of financial support for fascist-type movements which seek to harness popular discontent and resentments to overturn existing political structures. The story recounted here of the rise and frustration of the new conglomerators may therefore have as a sequel a significant strengthening of the fascist tendencies which George Wallace's 1968 presidential campaign showed to be already well developed in certain regions of the country and strata of the population. The other side of the coin might well be that old wealth, fearful of the implications for its own power of a fascist victory, would cling more closely than ever to its tried-and-true political weapons.

But all we can say for certain at this stage is that the course of the great merger movement of the 1950's and 1960's seems certain to complicate what already promises to be a very confused and uncertain political situation in the period ahead.

(May 18, 1969)

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LAND REFORM IN IRAN

BY FARHAD KHAMSI

Capitalist spokesmen in the United States and Europe continually point to Iran as a model of a successful "developing country," carrying out sweeping social and economic reforms and moving resolutely forward on the path of rising living standards and greater social justice. There have indeed been far-reaching reforms; but, as the following article makes clear on the basis of official data, the beneficiaries have been not the impoverished masses but the landlords and capitalists. The article, written by an Iranian graduate student of sociology now in the United States, is reprinted by permission from the July 1968 issue of *Iran Report*, organ of the Confederation of Iranian Students.—The Eds.

The first two stages of Iran's Land Reform (1962-1967), which were taken up mainly in the redistribution of holdings, have now been declared all but complete by the government. The third stage, which will consist of measures taken to increase agricultural production, is already under way. The "White Revolution," of which the Land Reform was the central pillar, with its aim of abolishing feudal relations, of ending exploitation and thus class conflict, of instituting a true democracy wherein the individual's rights would be preserved and personal initiative stimulated, has been declared a resounding success.

There is little doubt that Iran had long been ripe for a land reform. For centuries, the system of *muzare'e,* under which owners handed their land over to customary tenants in return for a proportion of the crop in kind, had dominated Iranian agriculture. In 1960, some 70 percent of the cultivated area was farmed in this manner, and it left its imprint on the remaining areas as well. *Muzare'e* placed many obstacles in the way of

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capitalist farming; of these, the communal organization of cultivation, which held both landowners and peasants within set patterns, thereby slowing the introduction of better methods of farming; the preponderance of customary holdings, which hindered the free transfer of land; and the high rents—perhaps ranging from 40 to 50 percent of the yield in most parts of Iran—which transferred capital badly needed by the peasants to the landowners who used much of it unproductively, may be mentioned. The growth of agricultural production, as shown in Table 1, was thus particularly slow—so slow, in fact, that per capita agricultural production was actually declining:

TABLE 1

INDEXES OF AGRICULTURAL PRODUCTION (AP) AND PER CAPITA AGRICULTURAL PRODUCTION (PCAP) FOR IRAN (1952-1954=100)

	AP	*PCAP*
1935-1939	85	118
1957-1958	117	106
1958-1959	119	108
1959-1960	123	106
1960-1961	118	96

About three-fifths of the Iranian population lived off the land. The lot of the majority was squalor and destitution; and, except for their attachment to the land, there was little else to distinguish them from the rural proletariat. Holders with land under 5 hectares, who comprised some 65 percent of all the holders in 1960, belonged to this category. On the average, they had only 1.3 hectares under crop, and owned the equivalent of 5 cattle. Since about 48 percent of these holders had no draught animals, they resorted to extensive borrowing or, failing that, ploughed their land with spades. Their income from the land was meager, ranging from some 300 to 1,200 kilograms of grain after the deduction of rent. They had little, if any, surplus to market. The per capita calorie intake for Iran in 1956 has been estimated at 2,140 calories, or 86 percent of the average daily requirement; the protein intake was only 18 percent of nutritional needs. Being in the lowest income

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category, these holders were thus perpetually in a state of semi-starvation. In general, they were heavily in debt, and paid exorbitant interest rates. Furthermore, the gradual fall in the price of wheat and barley relative to the price of manufactured goods was making it increasingly difficult for them to purchase the bare necessities of life. To the list of these conditions must be added the absence of health care in the rural areas, where infant mortality was close to 50 percent; illiteracy, which was about 85 percent among the population 10 years old and over; and the scarcity of outside employment.

The population of families with less than 5 hectares was 5,932,000 in 1960; together with families which had livestock but no land (2,228,000) they constituted some two-thirds of the agricultural population. Persons who had neither land nor livestock, and made a living as hired laborers, numbered about 2,000,000 along with their families. Thus, more than 10 million persons, or better than two-thirds of the rural inhabitants, lived in dire poverty.

Well-to-do peasant holders—mostly those with between 10 to 20 hectares—were relatively few in number: some 224,000 or 12 percent of all the holders. (The population of well-to-do peasant households was about 1,369,000.) On the average, these holders cropped 7.5 hectares, owned the equivalent of 11.8 cattle, were not lacking in ploughing animals, and had an income of approximately 2.5 metric tons of grain after the deduction of rent. Moreover, they had, on the average, three times as much land under commercial and permanent crops as the poor peasants. Still, the rich peasants were not a dynamic force in the countryside comparable to the kulaks in Russia at the turn of the present century, because the existing feudal relations and the narrowness of the market allowed them little economic rein.

Massive poverty, general dissatisfaction with prevailing conditions, and the sluggish growth of agricultural production all made unrest in the rural areas an imminent danger. In 1961, the government of Dr. Amini launched a land reform program with a twofold objective: to modernize Iranian agri-

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culture, and to remove the danger of a peasant uprising. In this, it enjoyed the full backing of the U.S. government, which regarded land reform in the underdeveloped nations of the "free world" not only as a measure to forestall revolution, but as one which would lead to the expansion of the national markets abroad, and consequently to the broadening of the investment horizon for American enterprise.

There were two paths which the reform could follow while still remaining within the framework of a market economy. The first, which would have served the interest of the peasantry, was to nationalize all landed property, or, somewhat less drastically, to hand over all large estates to the cultivators, with nominal compensation payments to the landowners. Capitalist farming would then have unfolded on this basis. Since such a reform would have swept aside all the remnants of the feudal past, the growth of agricultural production would have probably been much more rapid in the long run. The second was to make concessions to the land hunger of the peasantry without really reducing the power of large landowners; to prepare the way for the growth of capitalist farming without totally uprooting the vestiges of feudalism. Not surprisingly, this was the path which the regime, after some wavering, chose to follow.

In the first stage of the land reform (1962-1964), persons owning more than one village were required to choose one village, or portions of several villages that totalled to one village, for themselves, and to hand over the remainder to the government for resale to the peasants. Since this applied to individuals and not to families, as was originally intended, many large landowners easily avoided the first stage by registering their land in the name of their close dependents. In spite of this loophole, some 13,000-14,000 privately owned villages were eventually affected by the first stage—a fact which points up the exceedingly unequal distribution of land before the reform. The second stage became operational in August 1964. In its final form, it gave the landowners the choice of disposing of their land above a certain ceiling by (1) leasing to customary tenants for 30 years at a fixed rent equivalent to the average of their net income for the three previous years, revision in the

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amount of rent being allowed every five years; (2) selling their land to the customary tenants, if the latter consented, at a rate fixed by the Land Reform Agency; (3) buying the tenants' share if the latter were willing to sell; (4) dividing the land with the tenants on the basis of the former division of the crop, and receiving two-fifths of the value of the land handed to the latter; (5) forming a shareholding unit with the tenants if the majority agreed, in which their share and the tenants' share corresponded to the former division of the crop. Mechanized holdings and holdings cultivated by hired labor (fixed-wage) were exempted from division; so were orchards owned solely by landowners. The amount of land distributed to each customary tenant was to be determined by the size of his holding. Furthermore, those tenants who provided farming elements, such as seed, oxen, or both, were to be given priority over others who provided only labor. Agricultural laborers and squatters came next in the scheme of priority, but in practice they hardly benefitted from the reform.

The combined result of the first and second stages of the reform up to January 1967 is shown in Table 2.

TABLE 2

Peasants who became owners	786,715
Peasants who became leaseholders	1,223,968
Peasants who became shareholders	153,111
	2,163,794
Peasants who sold their customary rights	14,187
Total	2,177,981
Landowners directly engaged in farming	725,535
Mechanized villages exempted from the reform	1,277
Orchards exempted from the reform	2,650

By this time, some 2,315,950 peasant families, or approximately 72 percent of all the rural families, had been affected by the reform. Peasant membership in rural cooperatives, which were to be formed in all villages that underwent reform, was made mandatory. Ostensibly these cooperatives were to replace the landowner in overseeing the course of cultivation,

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but their main function soon became to guarantee the installments or rents due to the landowner by making the whole village rather than individual peasants responsible for the payments.

The value of the villages sold by the landowners to the peasants during the first stage of the reform was given as 8,878 million rials ($100 million), of which 2,802 million rials ($35 million) was paid by the Agricultural Bank to the landowners as the first installment. During the same period, the amount collected from the peasants, who were to pay the full value of the land they had received in 15 annual installments, was 488 million rials ($6 million). Thus the overall financial burden of the reform on the government would be light. Moreover, in order to expedite payment to the landowners, 55 government-owned factories were made into shareholding units, and landowners could discount their compensation payment orders with commercial banks if they wished to purchase shares in these units.

Government assistance to landowners and rich peasants took many other forms; in the main, these were designed to further the cause of capitalist farming. To mention but a few instances: Landowners were given pre-emptive rights with regard to uncultivated lands, and could receive loans from the Bank of Agricultural Credit and Rural Development for the purpose of bringing these lands under crop. Between 1965-1966 and 1966-1967 there was a sudden change in the type of credit advanced by the Agricultural Bank. Loans for current expenditures and seasonal needs, of which the poor and middle peasants were the main recipients, declined from 3,314 to 1,753 million rials; that is, they were almost halved, while large loans given mostly to landowners for productive projects quadrupled, jumping from approximately 494 to 1,808 million rials. The task of providing credit to the peasantry was handed down to the rural cooperatives. In 1966-1967, loans advanced by the 7,033 registered rural cooperatives, which had a membership of 936,000, totaled 3,024 million rials, an amount 60 percent above that advanced by cooperatives in 1965-1966. The main beneficiaries here were well-to-do peasants, since they were

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able to purchase a greater number of the cooperatives' shares, which in turn determined the size of the loans. Owing to the fact that the government was placing its financial resources more and more at the disposal of the landowners rather than the rural cooperatives, and also because of the nature and makeup of these cooperatives, the credit needs of the peasantry, which amounted to some 7.25 billion rials in 1960, were hardly being met. This neglect was especially felt in the 45,000 villages where cooperatives had not as yet been formed. In another attempt to encourage capitalist farming, the government obtained the approval of the Majlis (parliament), in June 1966, for a law which would give landowners who chose to rent their land during the second stage of the reform three years to do their ploughing with tractors or be forced to sell their land to the tenants. This measure was at the same time aimed at ameliorating the bitter dissatisfaction of small leaseholders, who were paying rents that were in many instances more than the annual installments paid by the new peasant proprietors. The government has, however, taken steps to offer agricultural machinery at more favorable terms to landowners, who are practically the only group able to make such purchases.

Present government policy is also reflected in a bill that was recently drawn up by the Land Reform Agency and handed to the Majlis for approval. From the beginning of the reform, it was the aim of the government to prevent subdivision of holdings. There was a minimum area, specified for every region, beyond which subdivision could not proceed; on the other hand, peasants could purchase land up to twice the specified minimum. Significantly, no limits were placed on leasing. The new bill, if passed, will create shareholding units, with a membership consisting of peasants who, following the reform, became either leaseholders or owners; sharecropping laborers; and landowners who chose the division clause during the second stage. The function of these units will be to create large leaseholds (not less than twenty hectares on irrigated and forty hectares on rain-fed lands) by facilitating the transfer of holdings from poor and middle peasants to rich peasants and landowners.

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All in all, the impact of the reform on rural Iran has been considerable. The reform has dealt a hard blow to the system of *muzare'e,* the backbone of Iranian feudalism; but, having been founded on *muzare'e,* it has retained, in somewhat altered form, many of that system's most backward features. Local variations resulting from centuries of feudal exploitation, even differences between adjacent villages, have been preserved. The distribution of land on the basis of the size of customary holdings has left the class division in rural areas unchanged. New leaseholders pay rents that are practically as high as before. The list could easily be extended.

By generally transforming holdings into leaseholds and owner-operated farms, by replacing tenure for an indefinite period with tenure based on contractual agreement, the reform has, nevertheless, created a new set of conditions. This, as well as the transfer of funds—in the form of compensation payments—from the peasants to the landowners, the allocation of the major portion of agricultural credit to large holders and companies, the pressure for mechanization, the more favorable position which well-to-do peasants occupy in rural cooperatives, and government encouragement of domestic and foreign capital to enter the sphere of agriculture, will undoubtedly accelerate the growth of capitalist farming. With regard to the last, it may be mentioned that already American, British, Canadian, German, and Japanese financial and industrial concerns are vying to invest in agricultural projects.

Present trends therefore point to a gradual increase in the number of large commercial farms, and to a quickening of differentiation among the peasantry. These would pose severe problems for the economy. The high level of rural unemployment was already causing peasants to migrate to the cities in large numbers, as is evident from the fact that while rural population increased only 18 percent between 1956 and 1966, urban population increased 80 percent. The swifter pace of capitalist development in the rural areas, and the resulting dispossession of large segments of the poor and middle peasantry, will no doubt swell the ranks of industrial growth; the number of newly created jobs will hardly be sufficient to absorb this

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flow. Moreover, a rapid upsurge in industrial activity is precluded by the present wasteful allocation of resources, e.g., the huge military spending, and more generally, by the power which foreign, primarily American, interests wield over the Iranian economy.

It is therefore highly unlikely that the regime will be able to resolve the contradictions arising from the reform. Nor is the regime capable of solving the basic problems of Iranian agriculture, for despite its rhetoric about justice, equality, freedom, and progress, it has shown itself to be the guardian of the landowners and of the rural bourgeoisie. It has expended little effort on improving the lot of the ten million or so destitute peasants; on the contrary, it has paved the way for their gradual expropriation.

A larger question poses itself at this juncture: Can a genuine land reform, one which would eradicate social injustice, raise productivity, and contribute to rapid social and economic progress, be carried out in an underdeveloped nation, if the frame of reference is to be a market economy? The Iranian experience answers this in the negative.

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NOTES ON THE CURRENT INFLATION

BY NATHAN SPERO

Both corporation heads and government economists, widely quoted in the news media, explain the current inflation as either "demand-pull" or "wage-push" or both. Under the "demand-pull" explanation, excessive effective demand for limited resources pulls prices upward. In "wage-push" inflation, overly large wage increases, in excess of rising productivity, push costs upward, forcing employers to raise prices. In any event, both explanations affirm that inflation is caused by working people having too much money. Both explanations assign to companies the role of unwilling participants in inflation, who are "pulled" or "pushed" into increasing prices.

Occasionally it is suggested by more sophisticated economic writers that the cause of inflation might be a "profit-push" by corporations whose monopoly strength has enabled them to administer prices upward in the framework of the pressures created by the Vietnam war. Such heretical views appearing in business or financial publications are rarely given wide currency by the news media.

An examination of government statistical indicators helps shed light on the causes of inflation.

(1) As was to be expected, the current wave of inflation coincides with the period of escalation in Vietnam beginning in 1965. From 1960 through 1964, the Bureau of Labor Statistics (BLS) Consumer Price Index increased at a rate of little more than 1 percent a year. Beginning with 1965, price trends accelerated year by year, with the latest year's increase

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exceeding 5 percent under the stimulation of a 63 percent increase in military spending (from $49.6 billion in fiscal 1965 to $81.0 billion in fiscal 1969).

(2) Despite the singling out of so-called greedy unions and their unconscionable wage increases as responsible for inflation, government statistics reveal that, in fact, the vast majority of working people have experienced a declining standard of living since the step-up of the war in Vietnam.

The following table, derived from the BLS's series on spendable average weekly earnings, shows how the real weekly earnings after federal taxes of the more than 47 million production and nonsupervisory workers in private industry have fallen year by year since 1965.

Real Take-Home Pay of Working People

Period	*Average Weekly Earnings* [a] (1)	*Less Federal Personal Taxes* [b] (2)	*Less Price Rises Since Escalation in Vietnam* [c] (3)	*Purchasing Power of Weekly Pay* (4)
	Worker Without Dependents			
1965—2nd half	$ 96.21	$16.26		$79.95
1966	98.82	17.53	$ 1.91	79.38
1967	101.84	18.46	4.20	79.18
1968	107.73	21.02	7.74	78.97
1969—1st quarter (Prel.)	110.95	22.68	10.15	78.12
	Worker With Three Dependents			
1965—2nd half	96.21	8.94		87.27
1966	98.82	10.16	2.08	86.58
1967	101.84	10.98	4.57	86.29
1968	107.73	12.45	8.51	86.77
1969—1st quarter (Prel.)	110.95	13.74	11.18	86.03

[a] U.S. Bureau of Labor Statistics averages for private employment—production workers for manufacturing and mining; construction workers; and nonsupervisory workers in transportation, public utilities, wholesale and retail trade, finance, insurance, real estate, and services.

[b] Federal income and social security taxes.

[c] Computed by use of BLS Consumer Price Index converted to a base of 1965, second half, equal to 100.

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The table shows how the average worker has been squeezed between rising federal taxes, used in part to finance the war, and rising prices. The average wage of a worker in private industry, head of a family of four, has increased $14.74 a week between the second half of 1965 and the first quarter of 1969. But federal personal taxes have drained off an extra $4.80 a week from his wages, while the toll of rising prices was $11.18 a week. As a result, he has $1.24 a week *less* purchasing power today than in 1965. The same story, with some minor variations, applies to single workers.

During this period of declining real wages, output per man hour in the private non-farm economy has been increasing at a rate of almost 3 percent a year, based on BLS figures. Rather than being the cause, the average worker is thus seen to be the victim of inflation.

(3) The *Wall Street Journal* of August 5, 1968, suggested that in the current inflation a "major culprit may be corporate profits." It points out that in the three distinct periods of inflation following the Second World War the facts indicate that inflation has been just as much "profit-push" as "wage-push." It quotes Peter L. Bernstein, president of Bernstein-Macaulay, Inc., an investment counseling service:

> The pattern is clear enough. Instead of labor costs pushing prices up, what we see instead is a sort of profit-push. Profits are already well on their way up before prices begin to rise, and prices are well on their way up before wages begin to rise faster than output.

More recently, the *Wall Street Journal* of April 21, 1969, is astounded by the vigor of profits:

> Wondrous is the profitability of the American factory. Most U.S. plants are operating considerably below the most efficient levels. The expense of factory labor in the past year or so has climbed more sharply than at any time in more than a decade. The 10 percent tax surcharge presses on profits. Yet, the American factory produces more profits per dollar of sales today than at most times in the post-World War II era. . . .

The *Wall Street Journal* concludes that a factor in these

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fat profit margins "has been the ease with which manufacturers have been able to boost prices."

The story of corporate profits is summarized in the following table:

	Corporation Profits After Taxes	*Dividends*
1965—1st half*	$45.1 billion	$19.1 billion
1965—2nd half*	47.8 billion	20.6 billion
1966	51.0 billion	21.7 billion
1967	48.1 billion	22.9 billion
1968	51.0 billion	24.6 billion
1968—4th quarter*	52.9 billion	25.4 billion

* Seasonally adjusted annual rates
Source: U.S. Department of Commerce

Preliminary surveys of corporation profits for the first quarter of 1969 indicate a further sharp increase in profits. The *New York Times* of April 27 reports that 878 companies in all industries which have released their first quarter profit figures report an 8.5 percent increase over the same period a year ago.

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UTOPIAN THEMES IN MARX AND MAO: A CRITIQUE FOR MODERN REVISIONISTS

BY STANLEY MOORE

Before his study of French revolutionary politics and British political economy, in the period when he was criticizing Hegel's theory of the state from the standpoint of a radical democrat, Marx proclaimed as his ideal mankind's return from *Gesellschaft* to *Gemeinschaft*: "That self-reliance, that freedom, which disappeared from earth with the Greeks, and with Christianity vanished into the blue haze of heaven, must again be awakened in the hearts of men. Then only will they seek as their highest goal moving from society (*Gesellschaft*) to a new community (*Gemeinschaft*), to a democratic state."

In Marx's early communist writings, from *The Jewish Question* to the *Manifesto,* the contrast between *Gesellschaft* and *Gemeinschaft* reappears as the control between *bürgerliche Gesellschaft*—together with its complement, *politische Staat*—and *Gemeinschaft* or *Gemeinwesen.* The first pair of terms he uses to describe the present; the second pair, to describe both the past and the future. In later works—the *Grundrisse,* the *Critique of Political Economy,* and *Capital*—this contrast is developed on its economic side into the comparison of exchange

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economies with natural economies that reveals the secret of commodity fetishism. In *Capital* exchange economy, class or classless, is contrasted with four non-exchange economies, class and classless. Viewed from this standpoint, the communist economy of the future differs more from a capitalist economy than it does from a feudal economy or the economy of a self-sufficient peasant household.

The demand for a rebirth of community is a central theme in Marx's critique of capitalist society. What Hegel calls the transition from *Sittlichkeit* to *Moralität,* and Tönnies calls the transition from *Gemeinschaft* to *Gesellschaft,* Marx reverses in his account of the transition from capitalism to communism. The proletarian revolution has therefore, not a single, but a double task. Negatively, it must abolish exploitation by establishing a classless economy. Positively, it must construct a new community to replace the old society.

To recognize this second task is to discover a common source for the utopian themes in Marxism. Is it not enough for proletarian revolution to abolish the division of labour between wage-workers and capitalists? Why does Marx suggest in *The German Ideology* that communism will eliminate *all* division of labour? Is is not enough to abolish the commodity exchange which masks capitalist exploitation? Why does he suggest in *Capital* that communism will eliminate *all* commodity exchange? Is it not enough to abolish the legal rules which mask capitalist dictatorship? Why does he suggest in his *Critique of the Gotha Program* that communism will eliminate *all* legal rules? And is it not enough to abolish the moral rules which mask capitalist class-interest? Why does he suggest in the *Manifesto* that communism will eliminate *all* moral rules? The less radical of these demands define the transition from class to classless society. The more radical define the transition from the abstract egoism of the old *Gesellschaft* to the mass fraternity of a new *Gemeinschaft.*

Can the two tasks be completed simultaneously? To ask this question is to understand the contrast drawn by Marx in *The Communist Manifesto* and *The Critique of the Gotha Program* between two stages of communism—in Lenin's ter-

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minology, between socialism and communism. The socialist principle of distribution—to each according to his contribution—marks accomplishment of the first task, the transition from class to classless society. The communist principle of distribution—to each according to his needs—marks accomplishment of the second task, the transition from society to community. Transition to socialism is inaugurated by establishing proletarian dictatorship; transition to communism, by withering away of the state.

To read Marx critically is to find in the distinction between these tasks the expression of a central tension in his thought. On the one hand, his theory of history is a sociology of change, focused on analyzing the interaction of technology and institutions. On the other hand, it is a dialectic of liberation, focused on exposing the sham freedoms of capitalist culture. Marx developed the dialectic of liberation before the sociology of change: in his terminology, he was utopian before becoming scientific. But in retaining his vision of a rebirth of *Gemeinschaft,* he failed to complete the transition. In his mature thought this tension is reflected in his separation of the two tasks of proletarian revolution. His account of the transition from capitalism to socialism is very largely based upon his sociology of change. By contrast, his account of the transition from socialism to communism is almost entirely based on his dialectic of liberation. Some of those earlier speculations which the *Manifesto* calls utopian are more firmly grounded on analysis of the interdependence of institutions and technology than is the Marxian vision of a new *Gemeinschaft.*

2

In the seventy years before the Russian Revolution, utopian themes in Marx's thought were not extensively discussed—by Marx himself, by Engels, or by their Social-Democratic heirs. (The revisionist controversy focused on the transition from capitalism to socialism, largely ignoring the transition from socialism to communism.) In the course of the last half-century, however, obsession has replaced neglect. Today, both inside and outside countries where communists hold power, discussion of

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Marxian theory centers on problems connected with the vision of a new *Gemeinschaft.*

Outside the organized communist movement this shift of emphasis has resulted from the spreading influence of existentialist interpreters of Marx. From early Lukacs to late Sartre, the practical impotence of these isolated thinkers has been balanced by the grandiosity of their theoretical demands. Their attempt to reinterpret Marx from an existentialist standpoint has involved increasing stress upon his dialectic of liberation, at the expense of his sociology of change. The moral judgements in writings of his youth receive more attention than the contributions to history and social science in writings of his maturity. The focus of discussion shifts from the problem of exploitation—which is central for the transition from capitalism to socialism—to the problem of alienation—which is central for the transition from socialism to communism. The evils of alienation, as Marx presents them throughout his writings, cannot be ended simply by ending exploitation. Their cure requires nothing less than a new birth of *Gemeinschaft.*

Russian communists and their followers have consistently opposed the existentialist interpretation of Marx. Yet Lenin and Stalin—holding power in a backward, isolated country—were led by a different path to a parallel emphasis on utopian themes. Had not Marx himself considered sympathetically the suggestion that nineteenth-century Russia might leap from *Gemeinschaft* to *Gemeinschaft,* without a capitalist *Gesellschaft* in between? His heirs, confronted with the staggering problems of raising Russia to the economic and political level of industrialized capitalist countries, chose in part to deny the existence of those problems by proposing shortcuts to the new *Gemeinschaft.* Lenin, between the February and October revolutions, wrote more concerning the transition from socialism to communism than Marx wrote during his whole lifetime. At the level of theory, he proclaimed in *State and Revolution* that on the first day of proletarian revolution the state starts to wither away. At the level of practice, he established in Russia a system of minority rule that has lasted for half a century. Stalin, when Soviet economic production was still below the level reached

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under the Czars, proclaimed the possibility of an unaided transition from socialism to communism. At the level of practice he directed, at enormous cost, the transition from a backward agricultural economy to an advanced industrial economy, comparable with those of developed capitalist countries. At the level of theory he discussed, with stupefying irrelevance, the transition from socialism to communism. His method of unifying theory and practice was to institutionalize schizophrenia.

By contrast with Lenin and Stalin, whose deeds failed to match their words, Mao has actually attempted to lead China from the old *Gemeinschaft* to the new by a process of uninterrupted revolution. Coming to power three decades after Lenin, he advanced the claim that pre-industrial China could effect its transition from socialism to communism before industrialized Russia. His first attempt to prove this claim was the Great Leap Forward, which was primarily an economic movement. His second attempt has been the Great Proletarian Cultural Revolution, which is primarily political. Their moral counterpart has been the campaign of propaganda against material incentives. At the level of theory, these developments mark the last stages in eliminating from Marxism its empirical and rational elements—its degeneration into a mass mystique of rebirth in *Gemeinschaft*. At the level of practice, Mao's dialectic of liberation seems to culminate in what undialectical people call repression—an unlimited and unquestioning subordination of individual to collective wills.

Outside of China, the Maoist demand for *Gemeinschaft* NOW has won sympathizers within the widespread renaissance of anarchism. And to the degree that this new anarchism is combined with existentialism, two major traditions claiming the heritage of Marx have found a common ground. Those New-Left theorists who advance the double claim that alienation is the central problem and Maoism is the key to its solution compound the attractions of communist and existentialist irrationalism.

3

A striking feature of current disputes among Marxists is the accusation that large groups of lifelong communists are

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engaged in restoring capitalism. Maoists assert that Yugoslavian communists—two decades after the proletarian revolution—are reversing the transition from capitalism to socialism. They also assert that Russian communists—half a century after the proletarian revolution—are moving in the same direction. But this charge is not monopolized by Maoists or directed solely against these governments. In nearly every communist quarrel throughout the world, between countries or within countries, one group accuses another of taking the capitalist road.

Examined in terms of Marx's theories, this charge is indefensible. Stressing material incentives is not proof of restoring capitalism. That such emphasis is common to socialism and capitalism is indicated by the socialist principle of distribution —to each according to his contribution. Nor is employment of market mechanisms proof of restoring capitalism. Though a necessary condition for capitalism, commodity exchange is not a sufficient condition: what Marx calls simple commodity production is a classless exchange economy. The crucial prerequisite is for a minority to acquire as their private property a decisive portion of the means of production—land, raw materials, factories, machinery. Without evidence that this transfer of ownership is actually occurring in Russia or Yugoslavia, the charge of restoring capitalism seems nothing more than paranoid abuse.

Examined, however, in terms of what has happened to Marx's theories, the charge is understandable. Marx had envisaged roughly the following sequence: pre-capitalist *Gemeinschaft,* capitalist *Gesellschaft,* socialist *Gesellschaft,* communist *Gemeinschaft.* Lenin, Stalin, and Mao—coming to power in pre-industrial societies and strongly impelled to treat drawbacks as advantages—increasingly stressed the possibility of a less complex and protracted development. Mao has envisaged roughly the following sequence: pre-capitalist *Gemeinschaft;* mixture of *Gemeinschaft* and *Gesellschaft;* communist *Gemeinschaft.* Viewed from his standpoint, any trends toward *Gesellschaft* in a communist country—except during a short period immediately following the proletarian revolution—amount to taking the capitalist road. Having started by identifying classless society with

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Gemeinschaft, he ends by identifying *Gesellschaft* with class society.

Mao's sympathizers among the existentialist-anarchists reach a similar conclusion by a different route. A major economic tendency of liberalization movements in communist countries is to increase the role of commodity exchange. A major political tendency is to increase the role of representative government. The socialist society resulting from such trends would differ from capitalist societies in being classless. Yet in other respects its economic organization, political processes, and cultural values would resemble those of a developed capitalist society more than those of a pre-capitalist or a communist *Gemeinschaft*. From the standpoint of these existentialist-anarchists, however, the decisive issue is not ending exploitation but ending alienation. Viewing commodity exchange and representative government as major sources of alienation in capitalist society, they do not welcome the program of communist liberalization. Having started by identifying *Gesellschaft* with alienation, they end by identifying liberation with *Gemeinschaft*.

Both lines of argument proceed from utopian premises to reactionary conclusions. An example is the comment on Russia's occupation of Czechoslovakia written by Paul Sweezy, from a Maoist standpoint, for MONTHLY REVIEW. He devotes half of his article to arguing that the Czechoslovakians—like the Yugoslavians and the Russians—by increasing the role of the market are objectively restoring capitalism. Their subjective aim he characterizes in his conclusion as "some kind of a democratic socialist utopia." It is a formula that harks back to the *Manifesto*: Utopian theory, reactionary practice. But whom does it fit better, Czech reformers or Maoist Chinese?

4

The origin and influence of the Maoist caricature of Marx's dialectic of liberation can be explained in terms of Marx's sociology of change. Under pre-industrial conditions—according to the *Manifesto*—the revolutionary theories that accompany the proletariat's first struggles for emancipation have necessarily a reactionary character. They advocate universal

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asceticism and social levelling in its crudest form. Mao's propaganda against material incentives advocates universal asceticism. His cultural revolution advocates social levelling in its crudest form. What are from his standpoint foundations of communism are from Marx's standpoint stigmata of pre-industrial utopianism. The most implacable opponent of Maoism is neither a clique of individuals nor an alliance of vested interests: it is the socialist industrialization of China.

By contrast, the growth of liberalization movements within industrialized communist countries poses problems internal to Marxian theory, by dramatizing the tension between Marx's sociology of change and his own dialectic of liberation. Reforms increasing the economic role of commodity exchange, increasing the political role of representative government, and decreasing the authoritarian uniformity of culture can be defended as urgent necessities for developing and strengthening social *Gesellschaft*. Are they not prerequisites for providing to each socialist citizen —in fact as well as words—a standard of living and a degree of economic, political, and cultural autonomy which compare favourably with those enjoyed by the average citizen in an industrialized capitalist country? Yet these same reforms can be attacked as abandoning the attempt to establish a communist *Gemeinschaft*.

Faced with this challenge, theorists of the liberalization movement have two choices. Like Marx, Engels, and the Social Democrats, they can protect their theoretical ideal by assigning to some distant generation the practical problems of attaining it. Or, as modern revisionists, they can purge Marxism of its utopian elements—rejecting those claims of its dialectic of liberation that are unsupported by its sociology of change.

5

Through what chains of reasoning does Marx suggest that division of labour, commodity exchange, and control of conduct by general rules will be wholly eliminated in the course of communist development? To the extent that he supports assertion with argument at all, he reasons along these lines. Because general rules apply the same standard to individuals in widely

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different circumstances, the abstract justice of moral or statute law is experienced concretely as unfairness. Because commodity exchange transforms relations between men into relations between things, the abstract freedom of the market is experienced concretely as compulsion to treat other men as things. Because division of labour increases men's collective powers of production by decreasing each individual's range of action, the complex culture resulting from such specialization is experienced concretely by most producers as compulsion to act like machines. In each case total elimination of the social arrangement in question is presented as a *moral* imperative—as necessary for establishing a community where the free development of each is based upon the free development of all. In no case is total elimination presented as a *technological* imperative—as necessary for adjusting men's relations with one another to a new stage in the development of the forces of production.

As moral reasoning, Marx's discussion of these issues falls far short of careful analysis. He was acquainted with arguments of Plato that provide qualified support for his position on the desirability of eliminating control of conduct by general rules, legal or moral. He was also acquainted with arguments of Rousseau to the effect that control by general rules is an essential prerequisite for individual morality and political freedom. Yet he neither considers the qualifications introduced by Plato nor refutes the arguments advanced by Rousseau. In his discussion of this complex issue, blunt assertion takes the place of theoretical analysis. Again, he was acquainted with arguments of Rousseau that provide qualified support for his position on the desirability of eliminating division of labour and commodity exchange. He was also acquainted with arguments of Hume answering those of Rousseau. Yet he neither considers the qualifications introduced by Rousseau nor refutes the arguments advanced by Hume. In his discussion of this complex issue, blunt assertion once more takes the place of theoretical analysis. Had he treated economic questions in this brusque fashion, all of *Capital* would be no longer than the *Manifesto*.

As sociological reasoning, Marx's discussion of these issues fails to carry him from some to all. He offers evidence and

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argument to show that *some* forms of specialization have become obsolete in the course of past technological development. But he offers neither evidence nor argument to show that future technological development will permit—much less require—elimination of *all* forms of specialization. Again, he offers evidence and argument to show that economic regulation *solely* through market mechanisms will become incompatible with continued technological development. But he offers neither evidence nor argument to show that further technological development will permit—much less require—planned economic regulation which makes *no* use of market mechanisms. Finally, he offers evidence and argument to show that control of conduct by *some* general rules is at once the mask and mechanism of capitalist exploitation. But he offers neither evidence nor argument to show that an industrialized classless society can—much less will—dispense with *all* such rules. Earlier proponents of a new *Gemeinschaft,* sacrificing technological for moral gains, proposed to break down existing economies into small, self-sufficient, productive units, utilizing simple techniques. Is not Marx's vision of a new *Gemeinschaft,* based on a large-scale, complex, industrial technology, far more utopian than theirs?

Marx recognizes that capitalist *Gesellschaft,* with all its defects, has come nearer to realizing his ideal of universal free development than has any pre-capitalist *Gemeinschaft.* Yet he is not content simply to advocate establishing a classless *Gesellschaft,* by abolishing exploitation. Instead, he views the transition from capitalism to socialism as preparation for a more radical change—emergence of a new *Gemeinschaft,* which will differ from all its predecessors in fostering rather than frustrating full development of every man's potentialities. This second goal, however, fights against the first. At the level of theory, the dialectic of liberation in terms of which Marx prophesies the transition to communism is inconsistent with the sociology of change in terms of which he predicts the transition to socialism. At the level of practice, viewing socialism as a prelude to communism has proved a serious hindrance to facing, rationally and empirically, the problems of improving existing socialist societies. The experience of half a century dictates rejecting—as romantic

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and utopian in theory, oppressive and reactionary in practice—the Marxian call for a new birth of *Gemeinschaft*.

6

Will this theoretical approach be adopted by liberalization movements in communist countries? Without predicting the outcome, one can point to both favourable and unfavourable circumstances.

On the one hand, current conditions seem to rule out dodging the issue by a program that affirms the utopian ideal in theory but postpones indefinitely its practical realization. The response of Marx and Engels to attacks from Bakunin is unlikely to be effective against attacks from Maoists and Stalinists. Utopian themes are now the focus of theoretical controversy throughout the communist world. Without explicitly rejecting Marx's vision of a new *Gemeinschaft,* theorists of the liberalization movement can neither defend their immediate program nor define their ultimate goal.

On the other hand, in European communist countries most of the theoretical critiques of Stalinism have been formulated in utopian terms. Adopting the existentialist interpretation of Marx, such theorists attack oppressive cultural, political, and economic institutions in terms of the struggle against alienation. To the dreary scholasticism of Stalin's *Dialectical and Historical Materialism* they oppose the revolutionary utopianism of Marx's *Economic-Philosophical Manuscripts.* Yet this philosophical critique of alienation is too apocalyptic in approach to guide a gradualist, empirically oriented, struggle for reforms. Pushed to its rigorous extreme, the critique of alienation leads past Stalinism towards Maoism. Restricted to eclectic compromise, it dresses moral truisms in philosophical jargon. For finding a theoretical approach that can integrate its immediate demands and clarify its basic aims, the liberalization movement must turn elsewhere.

Are there prospects for such a turn? Up to the present, theorists of liberalization have come largely from literary and philosophical circles: an existentialist-anarchist viewpoint is congenial to such groups. There are signs, however, that an alter-

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native approach is emerging among those scientifically oriented intelligentsia, technicians, and administrators who are proponents of liberalization. An empirical, positivistic viewpoint is congenial to these groups; and there are grounds for believing that their influence will increase. Literary and philosophical rebels might be suppressed indefinitely. But to the extent that the Russian and Chinese leaders currently in power continue to industrialize their economies and to provide their entire youth with technological and scientific education, they are digging their own graves. Increasingly Stalinism and Maoism will be attacked, not only as offenses against human decency, but as fetters upon the forces of production. Andrei Sakharov's *Progress, Coexistence, and Intellectual Freedom* marks the opening of this era.

What then may be expected from such revisionists? Negatively, the rejection of obscurantist verbiage and incoherent dreams, even when the verbiage and dreams are those of Marx. Positively, an agreement to work, in the spirit of what Marx called scientific socialism, for a just society and an individualistic culture—where the free development of each is both enriched and restrained by the free development of all his fellows.

They will seek no New Jerusalem. Only a time when human progress ceases to resemble that cruel god who scorned to drink the nectar, except from the skulls of the slain.

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BOOKS

LENIN AND STALIN

BY HARRY BRAVERMAN

Lenin's Last Struggle, by Moshe Lewin, translated from the French by A. M. Sheridan Smith. Pantheon Books, New York, 1968; $4.95.

At the age of fifty-two, Lenin began to show the effects of the tensions and responsibilities under which he had worked for so long. A period of poor health culminated, on May 25, 1922, in a stroke which partially paralyzed him and deprived him for a time of the power of speech. He was not able to return to his desk in the Kremlin until the beginning of October, and his working life was to be ended by a new stroke on March 10.* Lenin's "last struggle," as Dr. Lewin calls it in the title of his excellent book, took place during these five months from October 1922, to March 1923.

Much of the story has long been known. True, it was suppressed for decades in the Soviet Union; and Western bourgeois and social-democratic scholars failed to give it much prominence out of the transparent motive of preferring to stress the continuity rather than the break between Lenin and Stalin. But many of Lenin's last activities were reported by Trotsky in exile, and when the relevant documents were at last taken from the Lenin archives and published in the Soviet Union in the late fifties and early sixties, Trotsky's narrative and his textual quotations were cor-

* He did not die until January 21, 1924.

Harry Braverman is Director of Monthly Review Press and author of *The Future of Russia* (1963).

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roborated.* The fifth edition of Lenin's work contains much that was omitted in previous editions, and valuable information has been added by the memoirs of Fotieva (Lenin's most important personal secretary), and the "Journal of Lenin's Secretaries"** which covers November 21, 1922, to March 6, 1923. These new sources provide some materials not available to the two best historians of the affair, Edward Hallett Carr and Isaac Deutscher.

Moshe Lewin has performed the significant service of assembling a complete account of these extraordinary events and providing an interesting analytical setting. Dr. Lewin, whose impressive *Russian Peasants and Soviet Power* was also published in English translation in 1968 (Northwestern University Press), is rapidly making a place for himself as an important scholar of Soviet affairs. Having worked on a collective farm in the U.S.S.R. and served in the Soviet army, he brings an unusual background of personal experience to bear on his investigations. As a director of studies at the École Pratique des Hautes Études in Paris, as a Senior Fellow at the Russian Institute of Columbia University, and more recently at the Center for Russian and East-European Studies of Birmingham University, he is contributing heavily to our knowledge and understanding of periods of Soviet history about which little is known, particularly the late twenties and early thirties.

In his preface, Lewin reports on the impression conveyed by the "Journal of Lenin's Secretaries":

But however fragmentary the notes of the "Journal" may be, they are enough to show the intense and passionate struggle that Lenin, paralyzed and no doubt aware of his approaching end, was waging not only against physical decline but also against the leadership of his party. With great effort he drew up a comprehensive survey of the situation of the country, worked out a program of action, and tried hard to persuade his colleagues in the

* In *The Prophet Unarmed,* Volume II of his Trotsky biography, Deutscher says: "I wrote the first two chapters of this volume in 1954, basing the documentation largely on *The Trotsky Archives.* Only two years later, after Khrushchev's disclosures at the Twentieth Congress of the Soviet Communist party, were some of these important documents published in Moscow for the first time; and they have since been included in a special volume (Vol. XXXVI) added to the fourth edition of Lenin's *Works.* Comparing the texts, I have not had the need to alter a single comma in the quotations taken from *The Trotsky Archives.*" (pp. 67-68)

** Published as an article in *Voprosy Istorii,* the Soviet historical review, No. 2, 1963.

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Politburo and the Central Committee to accept it. This program, which was not requested by the members of the Politburo, involved considerable changes in government methods, in personnel, and to some extent in objectives. The majority of the Politburo were unenthusiastic.

With the help only of a few women—Krupskaya, his wife, Maria Ilinichna, his sister, and three or four secretaries, notably Fotieva and Volodicheva—Lenin fought obstinately to get hold of the dossiers he needed. He spoke to influential members and suggested specific lines of action; he sought allies and sounded out the opinions of various leaders, by indirect means if necessary; he worked on a lengthy report for the next Party Congress and published articles, for he finally managed to obtain the permission either of his doctors or of the Politburo itself to continue with some of his activities. But there were other activities that he pursued in secret—and with good reason. With the help of his closest friends, Lenin was engaged in nothing less than a plot to ensure the future success of his life's work. The center of the "conspiracy"—the word is Lenin's own—consisted of a private commission that he had secretly formed to inquire into certain events in Georgia in which leading figures in the Party had been implicated. . . . Historians have often spoken of an "intellectual crisis" that Lenin may have experienced during this final period. . . . (pp. xi-xiii.)

That Lenin was in the grip, if not of an "intellectual crisis," at any rate of a comprehensive review, there can be no doubt. The trouble is that the reader who hopes to find in Lenin's last writings an answer to the great issues that were to rack the party is bound to be disappointed. Most of the economic problems central to Soviet development had not as yet ripened. They existed only in embryonic form.*

There is, however, one exception: bureaucracy and inner-party relations. This was an issue which was to assume major propor-

* Lenin did concern himself with two major economic matters in this period. The first was the weakening, in his and Trotsky's absence, of the monopoly of foreign trade by the Central Committee, a move which Trotsky, speaking also for Lenin on this issue, easily reversed. The second was Lenin's change of position on the enlargement of the powers of the Central Planning Commission proposed by Trotsky. But the first of these was not again to become an issue of major importance after Lenin's death; in the case of the second, it is likely that Lenin was motivated to make this concession chiefly by his anxiety to solidify a bloc with Trotsky. At any rate he did not leave behind any extensive reconsiderations of Trotsky's industrialization plan and his theory of "primitive socialist accumulation."

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tions in the development of the Soviet Union and the factional struggles of the twenties. Indeed, it might be said to encompass all other issues. As Lewin points out, what was involved here was not just an "organizational" matter, only a question of "means." The means shaped the ends: that is to say, *the problems of power and its uses began to overwhelm the socialist goal.* This is the essence of the problem of bureaucracy which has been discussed so often in every socialist movement. It is not a matter of bad means; it is a matter of decisions taken to suit the convenience of the administrators of power rather than to further the creation of the new society for which the Revolution was made. This is the conflict Deutscher identified as that between "the dream and the power of the revolution."* The "dream" was that of the uncorrupted standards of socialism. The "power" was the centralized machine to which the Bolsheviks "gradually surrendered more and more of their dream." As Deutscher points out, the division was not clear-cut, and the conflict between dream and power was not only a clash *between* individuals, but *within* individuals as well. Those who more easily overcame socialist scruples found it easier to function in the machine than those others who retained their concerns about what sort of society it was all leading to.

Lenin's concern with this problem throughout the early years is unmistakable. At first he saw it in a general way, rather than as an affliction which penetrated the topmost bodies of the Party. The Soviet administrative apparatus was, he pointed out, composed of perhaps a half-million former Czarist officials watched over by a handful of Communists. It was, he said, nothing more than the old Imperial apparatus "annointed with a little Soviet holy oil," or "only slightly repainted on the surface."** His feeling is well described in a striking paragraph from Deutscher's biography of Trotsky:

> He was in the mood of a man who, with one foot in the grave, uneasily looks back on his life's work and is seized by a poignant awareness of its flaws. Some months earlier, at the Eleventh Congress, he said that often he had the uncanny sensation which a driver has when he suddenly feels that his vehicle is not moving in the direction in which he steers it. Powerful forces diverted the Soviet state from its proper road: the semi-barbarous

* *The Prophet Unarmed* (p. 73).

** Quoted in Schapiro, *The Communist Party of the Soviet Union*, pp. 227, 228. Lenin's notes on this subject were first published in the Soviet Union in 1956.

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peasant individualism of Russia, pressure from capitalist surroundings, and above all, the deep-seated native traditions of uncivilized absolutist government. After every spell of illness, when he returned to watch anew the movements of the state machine, Lenin's alarm grew; and with pathetic determination he struggled to grip the steering wheel in his paralysed hands. (Vol. II, p. 69)

This problem, therefore, did exist in almost fully developed form at an early date, and Lenin was not slow to react. In fact, when he came to realize that the affliction had developed so far that it now encompassed his own Central Committee and Politburo, he reacted with far more vigor and decision than another critic who had preceded him into this arena, Trotsky. Several issues alerted him to the danger, and chief among them was the so-called Georgian affair.

In the first years of the Revolution, relations among the six Soviet republics were governed by bilateral treaties, and in 1922 Stalin was busy with the project of uniting them. His plan for union gave a predominant position to the Russian Republic by providing for the others to join together under the government of the Russian Federation. There was a clear inequity in this and other features of the plan; coming as it did from the Commissar for Nationalities, this was strange. But, as various historians have held, probably correctly, the so-called national question was not central to this issue; behind it lay the question of administrative and political bureaucracy. Stalin, after all, had established a sound reputation in the field of national problems, and was not ignorant of the principles involved. His chief partners in the affair were Dzerzhinsky, an old Polish socialist, and Ordzhonikidze, an old Georgian Bolshevik, as was Stalin himself. These were unlikely candidates to fall under the spell of Great Russian nationalism, and if they did it was simply because their impatience for centralized control overcame their attachment to well-known socialist principles of self-determination.

Of course, the balance between the conflicting claims of central control and national autonomy would never have been easy to reconcile, but Stalin was not attempting a balance—he was riding roughshod. Lenin objected strongly. Stalin reacted with impatience to Lenin's objections, writing in a note to Kamenev, "I think we should be firm with Lenin," and submitting to the members of the Politburo, along with Lenin's memorandum, his own rejoinder in which he incautiously attacked Lenin for "na-

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tional liberalism." But, realizing that he could not carry the Central Committee he retracted immediately, and acceded to Lenin's plan, which provided for the formation of the Soviet Union on terms of equality of all the republics, and under a new government instead of that of the Russian Republic.

But a conflict was already raging between the Georgian Communist leadership and the Russian Politburo. The Georgians were not content with an empty husk in the form of a well-intentioned resolution. They wanted some genuine autonomy. The fight broke out anew over their demand that Georgia join the Soviet Union, not as part of the federation of Transcaucasian republics, but, like the Ukraine and Byelorussia, as a separate member.

Lenin, despite his differences with Stalin, had heretofore turned a deaf ear to the Georgians, apparently convinced that they were guilty as charged of "nationalist deviations." But, by the end of November 1922, he had become alarmed by a number of incidents and changed his view completely. A letter from an old Georgian Bolshevik told him of the threats by Ordzhonikidze against Georgian Communists (for instance, supporters of the Georgian Central Committee were ordered to leave their country and place themselves at the disposal of the Russian Central Committee). Then, the Georgian Central Committee resigned almost to a man (nine of eleven), and Ordzhonikidze appointed a docile group to replace it. And finally, Ordzhonikidze so far forgot himself as to strike a Georgian party member during a meeting.

Dissatisfied with his official sources of information, Lenin formed his famous secret investigating commission, but his mind was already made up. His notes of the last days of December and his instructions to his secretaries, who were to conduct the investigation, show that this commission was intended to collect information for presentation to the party congress scheduled for April.*

* To illustrate Lenin's difficulties in gathering material (Stalin was in charge of medical supervision for the Central Committee), Lewin relates the following: "[Lenin] wanted to know the findings of the census of civil servants in the large cities that had been carried out at his instigation. He was so suspicious of the bureaucracy that he made repeated requests to see what the results had been. In the end, his secretary was forced to admit that he would not be allowed to see the documents without Stalin's permission. Lenin had not known about this. According to Fotieva in her memoirs, the affair provoked Lenin to an outburst of bad temper three days later, on January 10, and a month later, on February 12, caused an emotional crisis. One of his doctors, Förster, who was about to allow him newspapers and visits, suddenly put an end to his

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The most alarming part of the entire affair for Lenin was the use of intimidation, particularly as symbolized in the blow struck by Ordzhonikidze. Dr. Lewin quotes Fotieva's memoirs: the event "upset him deeply." The "Journal" shows him returning to it repeatedly. "If matters have come to such a pass, . . ." he wrote on December 30, "we can imagine what a mess we have got ourselves into."

As a byproduct of the Georgian affair, another event occurred which enraged Lenin even more. Lenin's wife, Krupskaya, fell afoul of Stalin while collecting material for Lenin's investigation. Stalin, knowing very well what was going on, telephoned and, in her words, piled "unworthy abuse and threats" upon her.

The determination to remove Stalin probably crystallized in Lenin's mind more as a result of these two incidents than because of any other events. In his instructions to his commission, he not only stressed the Ordzhonikidze affair, but also demanded repeatedly to know why the official commission had not looked into the matter: "Did Stalin know? Why didn't he do something about it?" He wrote to the Georgian dissidents: "I follow your affair with all my heart. I am outraged at the rudeness of Ordzhonikidze and the connivance of Stalin and Dzerzhinsky. I am preparing for you notes and a speech." He demanded the expulsion of Ordzhonikidze from the party for at least two years.

One of Lenin's secretaries told Trotsky that Lenin was preparing a "bombshell" against Stalin for the coming congress; Krupskaya told Kamenev that Lenin had decided "to crush Stalin politically." Lenin dictated a letter to Stalin (now included in Vol. LIX of Lenin's works as published in the Soviet Union) threatening to "break off relations between us" over the Krupskaya affair. And finally, he added a postscript to his Testament advising the removal of Stalin from the general secretaryship of the party.

All of Lenin's efforts were now directed toward the April

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hopes and forbade 'political information.' When Lenin asked what he meant by the term, the doctor replied, 'Well, for example, you were very interested in the question of the census of Soviet civil servants.' This reply came as such a shock to Lenin that his lips trembled: the fact that the doctors should be so well informed about such details and capable of making such distinctions confirmed his worst suspicions. Fotieva notes prudently in the 'Journal': 'It is probable, moreover, that Lenin got the impression that it was not the doctors who gave the orders to the CC, but the CC to the doctors.' In fact, for Fotieva, it was no longer a question of mere probability but of certainty." (pp. 92-93)

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congress (which he never attended as it took place after his final incapacitation). Clearly he had in mind a reorientation for the party, in addition to the removal of Stalin, and his thoughts were set down in an article, "Better Fewer, But Better." This article discussed the means whereby a "really new state apparatus, one really worthy to be called socialist," could gradually be built. It contains the following significant sentence: "In short, we must not make the demands [on the state apparatus] that are made by bourgeois Western Europe, but demands that are fit and proper for a country which has set out to develop into a socialist country."

A commissariat already existed which had charge of the state and party apparatus, that of the Workers' and Peasants' Inspection, built up by Stalin over a three-year period and still under his influence. Lenin minced no words: he proposed to throw it out and start all over again. "Let us say frankly," he wrote, "that the People's Commissariat of the Workers' and Peasants' Inspection does not at present enjoy the slightest authority." He proposed building a "new" Commissariat, according to the strictest standards of socialist consciousness, with broad powers of investigation. Perhaps with his own secret commission on the Georgian affair in mind, he went so far as to recommend that the new commissariat work out "special rules to screen their movements, their approach, etc."*

The foregoing is a bare outline of a truly extraordinary story, and every reader is urged to get the full account in Dr. Lewin's book. But even this brief summary is enough to indicate one salient aspect of Lenin's last struggle: almost every issue touched by Lenin led him directly to Stalin. The reason for this striking fact is very simple: Stalin had by this time become the most powerful man in the Party. Lenin could and would have defeated him

* Dr. Lewin reproduces the text of this article among the appendices of this volume. In his attack on the Workers' and Peasants' Inspection, Lenin was taking up a theme sounded repeatedly by Trotsky all during 1922. Thus it could not but strike the other Politburo members as another sign of the formation of a bloc between Lenin and Trotsky. The Politburo made extraordinary efforts to avoid publication. Repeated messages from Lenin through Krupskaya forced the matter onto the agenda of the Politburo where, according to Trotsky, all members except himself opposed publication and one, Kuibyshev, proposed printing a dummy issue of *Pravda* for Lenin's eyes! The Politburo abandoned its untenable position when Kamenev, arriving late, threw his support to Trotsky. The article had been finished on February 10. *Pravda* finally printed it on March 4 but appended to it, as the date of writing, March 2.

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politically, had he lived; and Trotsky probably could have won at the April congress, had he fought. They were both far stronger among the Party cadres. But so long as Stalin was not removed, he already wielded far more day-to-day power than either Lenin or Trotsky, or than both combined.

He had for some time been the principal organizer of the Party and the state. His rise to this commanding position was facilitated by an event perhaps more fateful than most historians seem to recognize: the death from typhus in March, 1919, of Jacob M. Sverdlov, the secretary of the Central Committee. Sverdlov had been Lenin's manager of the Party machinery. A master administrator of irreproachable character, he was to the organization side of the Party work what Lenin was to its political side.*

Stalin was not, it is true, widely known, but when the civil war ended he was one of the half-dozen most powerful men in the Party, heading two commissariats (Nationalities, and Workers' and Peasants' Inspection) and being, along with Lenin, Trotsky, Kamenev, and Bukharin, a member of the top Party committee, the Politburo. Of the Politburo members, he alone concerned himself with the day-to-day management of the party, and served as liaison with the Orgburo.

Sverdlov's post eluded him for three years; it was assigned instead to committees. But in the spring of 1922, a routine announcement of two modest paragraphs appeared in *Pravda*: "The Central Committee elected by the Eleventh Congress of the Russian Communist Party has confirmed the secretariat of the Central Committee as follows: comrade Stalin (general secretary), comrade Molotov, and comrade Kuibyshev." No one attached great importance to the news, but as it turned out, Stalin, flanked by two close supporters, had become a super-Sverdlov wielding powers his predecessor never knew, in a way his predecessor probably never would have countenanced.**

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* One cannot help guessing that Lenin was thinking of the dead Sverdlov when he dictated the famous postscript to his Testament, proposing that Stalin be removed and replaced by someone "more patient, more loyal, more polite, more attentive to comrades, less capricious, etc."

** E. H. Carr writes of Stalin's appointment: "Nothing suggests that it had aroused any opposition, except perhaps an ill-tempered remark at the congress by Preobrazhensky, who, mentioning Stalin by name, asked whether it was 'thinkable that one man should be able to answer for the work of two commissariats as well as for work in the Politburo, the Orgburo, and a dozen Party committees.'" (*A History of Soviet Russia*, Vol. I, p. 213)

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We cannot, of course, rest historical interpretations upon the accidental presence or absence of one man, but when such fortuitous factors happen to coincide with immense social pressures, they can play a key role. And there is little doubt that in the impoverished and disorganized peasant Russia of the twenties, the immense social pressures were all *against* the shaping of a socialist society.* The Soviet Union suffered simultaneously the removal of the man best equipped to spur the party to rise above the daily concerns of power, best equipped to try to solve the problems of administration in a manner harmonious with the aims of socialism, and his replacement by a man who was already showing himself predisposed to seek solutions for political problems primarily through raw power. This was a double blow of enormous consequences.

It is therefore fitting that Dr. Lewin closes his book with a chapter called "If Lenin Had Lived . . ." This is by no means a gratuitous speculation for a number of reasons, the most important of which is that while the Soviet Union was at that time *sui generis*, it has now been joined by a number of other countries grappling with fundamentally the same problem.

Lewin concludes that a Leninist dictatorship would not necessarily have degenerated into a "personal, despotic, and irrational dictatorship." "From a historical point of view," he writes, "there was nothing essentially utopian about Lenin's aim of achieving a rational dictatorship, with men of integrity at its head and efficient institutions working consciously to go beyond both underdevelopment and dictatorship." (p. 136) The party might then have been able to rely more on "economic and educative methods" rather than "administrative constraint."

This projection, so far as it goes, seems unexceptionable. In fact, it may not go far enough. The destruction of the Bolshevik Party** closed innumerable possibilities to the Soviet Union, and

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* For those who have not already read Victor Serge's *Memoirs of a Revolutionary,* this remarkable book can be recommended as the most moving and graphic account available of the difficulties during the early years of the Russian Revolution.

** Stalin did not stop with the annihilation of the left and right oppositions, led respectively by Trotsky and Bukharin. He turned on his own faction, and, as Khrushchev told the Twentieth Congress, executed 98 of 139 (70 percent) of the Central Committee selected at the Seventeenth Congress in 1934. By the late forties and early fifties, again according to Khrushchev, the few survivors (Molotov, Mikoyan, Voroshilov, etc.) themselves began to expect "liquidation."

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it is hard to envision them all. Economic construction on a more socialist model? A more honest and more Marxist world movement? Successful revolution in central Europe—perhaps even in Germany—during the twenties and thirties? Or maybe only the denial of power to Hitler? Starting with the relatively small divergences of immediate policy in the first years, great divergences of possibility open up, so vast one hardly knows how to calculate them. This is because in so huge and globally influential a situation as that enjoyed by the Soviet Union, the effects of decisions may be said to grow from year to year at a geometric rate. Stopping Hitler's rise to power in Germany, for instance—and another leadership in that country and in the Communist International might have achieved this—would have so altered the history of the forties and fifties that the world becomes hard to imagine in familiar terms.

This is a field of speculation in which no one can be cocksure. We still do not know the practical limits of socialist policy in underdeveloped countries. We still do not know how successfully, under such difficult social and economic conditions, a country like the Soviet Union can both industrialize and build genuine socialism at the same time. (This is precisely the interest that attaches to current efforts in China and Cuba.) But we do know that had Lenin lived, alternatives that are now being rediscovered by Marxists would at least have been tried earlier.

I regret the hour in which I wore no armour!
I regret the day that struck no wound!
I regret (strewing ashes on my head)
That my belief in victory was not more fervent!
I regret that I was banished only once!
I regret so often feeling human fear!
I regret (confessing with humiliation)
That I was not thrice more daring!

Konrad Ferdinand Meyer
(Rosa Luxemburg expressed the wish that these words appear on her tombstone)

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WORLD EVENTS

By Scott Nearing

Mao Tse-tung Again in Power

During recent years China has passed through one dramatic crisis after another. Dr. Sun Yat-sen led a successful coup against the ruling Manchu Dynasty in 1911. Between 1911 and 1949 China's troubles included inflation, invasion and occupation by foreign armies, civil war, and social chaos. This period ended on October 1, 1949 with the inauguration of the Chinese People's Republic.

Mao Tse-tung played the title role as top man in the Chinese Communist Party and Chief of State in the 1949 Republic.

Ten eventful years followed. Mao and his People's Liberation Armies unified China, consolidated their power, launched plans of industrialization and modernization, established friendly relations with most of their neighbors. A National Committee, with Mao as Chairman, drew up a carefully written constitution and began building socialism in the world's most populous state. Speedy improvements were made in education and public health. Record economic advances were achieved. Agriculture passed rapidly through land distribution, voluntary work teams, collective farms, and peoples' communes. The communes were all over the country by 1958-1959.

Meanwhile the Chinese Communist Party had grown in numbers while China's trade unions spread through the industrialized areas. The schools were turning out increasing numbers of technicians, engineers, teachers, and other professionals. Close cooperation with the Soviet Union between 1950 and 1959 speeded up the unification and industrialization of China.

1959 was the year of the Great Leap. Under Mao's urging, Chinese officialdom adopted the slogan "More, faster, better."

The Great Leap was at best a qualified success and at worst a partial failure, falling far short of the ambitious plans.

So obvious was the failure of the Great Leap that Mao's

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opponents in the Communist Party, who had counselled caution and reorganization instead of a spectacular forward jump, were able to shelve Mao as Chief of State and replace him with Liu Shao-chi. Mao remained top man in the Communist Party.

Adverse weather in 1959 and 1960 resulted in decreased food production, stringent rationing, and the importation of food. Divided counsels in the Party checked the economic upsurge which had preceded the Great Leap. Various attempts to establish "to each according to his needs" communism in the more advanced communes led to sharp controversy.

Immediately after the Great Leap, friction with the Soviet Union developed. Soviet aid was sharply reduced. By 1960 the Soviet technicians who had played so large a role in Chinese modernization had been withdrawn. In this hasty policy shift important construction projects were abandoned. Cooperation between Moscow and Peking gave way to recriminations, doctrinal controversies, frontier incidents along the long border between the two countries.

Who was to blame? Each side accused the other. The charges and counter-charges appeared in long official documents. In the decade beginning with 1958, relations between Moscow and Peking worsened, reaching an extreme low in the border clashes along the Ussuri River early in 1969.

Against this background, controversy inside the Chinese Communist Party led to an open break. Liu Shao-chi, Chief of State, also controlled the Communist Party, of which Mao remained Chairman. Between 1959 and 1969 the Chinese Party held no national convention. Consequently, the issue between the Liu Party control and the Mao faction never came to a showdown.

In 1966 Mao Tse-tung and his faction proclaimed the Proletarian Cultural Revolution. This proclamation was, in effect, an open declaration of war against Liu Shao-chi who was in control of the Party apparatus, the State apparatus, and the trade unions. The large and well-organized army and its commander Lin Piao were the organizational mainstays of the Mao faction.

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Mao support in the three-year battle royal that began in 1966 came from three sources: a propaganda campaign to establish the image of Mao Tse-tung as peerless leader of the Chinese people; the closing of all higher schools, supplying the students with free food and transportation, and mobilizing and organizing them at strategic points; and, where necessary, the use of the army to back up the aggressive Red Guards.

Mao's forces attacked their key opponents in the Communist Party and the trade unions, as well as the leaders of the Liu government. They did not attack the state directly.

As the struggle continued, the Mao faction set up revolutionary committees in key factories, cities, and provinces. As opportunity offered, these revolutionary committees, using the Red Guards as shock troops and supported where necessary by the army, took over power, first where the Maoists were strongest, then extending their areas of control until they were in a position to call a handpicked conference of the Communist Party in April 1969, rewrite its by-laws, select Lin Piao as successor to Mao, and prepare for the amalgamation of the Revolutionary Committees with the state apparatus.

The struggle had been so bloody in places that Lin Piao's army had been called in, but on the whole the take-over had been achieved with a minimum of violence. Starting as a factional minority in 1966, with the Communist Party apparatus, the state apparatus, and the trade union apparatus in the hands of the Liu majority, Mao and his minority had taken over the power structure bit by bit, leaving Liu and the state apparatus isolated. The final stroke was the Maoist-packed National Convention of April 1969. During these three critical years the Liu supporters were driven from one strategic position after another and replaced by Mao backers.

Civil strife is always costly. The Mao-Liu conflict was no exception. Production, transportation, and distribution suffered. No figures on the setback are available. The losses in experienced personnel were so heavy that it was necessary to forget and forgive many of Liu's followers in order to put them back in important positions and take advantage of their knowledge and experience. In the course of the struggle Lin Piao's armed

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forces played a critical role. As a result, army men were prominent in the April 1969 Communist Party convention. They remain prominent in the Party and state apparatus. Lin himself has been officially designated as Mao's successor. Thus Party, state, and army leadership has been centered in one personality, very much as they were centered previously in Mao. The Chinese coup d'état has therefore replaced emperors, who were the sons of heaven, by two men, Mao and Lin, one old and one middle-aged. Both hold and will hold personal dictatorial power until they die or are placed in another power struggle.

"Things change" says the French proverb, "yet they remain the same." Chinese history, including the history of socialist China since its inauguration in 1949, is an excellent illustration of the French saying. For ages China has been ruled by personal dictators, in its feudal era, in its capitalist era (if the Chiang Kai-shek dictatorship can be called such), and in its socialist era—including the era of the Great Proletarian Cultural Revolution. Always the armed forces have played a decisive role in protecting as well as in overthrowing the dictators. Always the professional politicians have maintained a semblance of "law and order" under one dictatorship after another.

This sequence is the backbone of the changeless Chinese nationalism. It is the core of Chinese socialism. It is idle to ask whether 20 years of socialism, under Mao and Liu, have produced the "socialist man" proclaimed by Mao as the purpose of the Great Proletarian Cultural Revolution. The answer is: of course not. The G.P.C.R. was a slogan under which the Mao dictatorship (temporarily eclipsed after 1958) was re-established in 1969. Names, titles, personalities come and go, but Chinese nationalism, expressed in the cult of personal dictators, after ages of use and abuse, remains as the symbol of present-day Chinese society.

What has happened to the Chinese socialist society formally proclaimed in October 1949 and reborn during the three past years of Cultural Revolution? It remains socialist, but typically Chinese. Mao and his lieutenant Lin called their friends and followers together in April 1969 and proclaimed them-

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selves the new rulers of China. Such episodes have marked the course of Chinese history for centuries. Whenever one ruling clique became too weak or too corrupt to preserve the status quo, ambitious rivals gathered the forces of opposition, overthrew the existing leadership, and took over the state apparatus.

Mao's leadership before and after October 1949 unified China and helped to restore its tradition as the dominant political and cultural force in East Asia. If the Chinese people accept and support Mao in his "second term" of dictatorship, China will continue as Asia's Number One power.

At the April Communist Party Conference, Lin presented Mao's program in a 24,000 word document outlining the Mao-Lin program which designated the Soviet Union as China's Enemy Number One, listed the United States as Enemy Number Two, and called upon the Chinese people to defend their homeland against these and other aggressors. By this proclamation China's leaders have launched a campaign which will continue and intensify Peking-Moscow rivalry.

If, as some of us assume, China is today the third ranking world power, the Lin program, tumultuously adopted by the April convention, commits China to take on its two rivals for world power, beginning with the Soviet Union. In these terms, the next general war will begin as a military showdown between the two most populous socialist states.

De Gaulle Came and Went

General Charles de Gaulle, a big man with a dominating personality, helped pull together the scattered remnants of French society which survived the savage mauling of 1914-1918 and the crushing, ignominious defeat in the blitzkrieg of 1939-1940.

De Gaulle was persuasive, persistent, conservative—a typical Frenchman of the old school. Like his contemporary, Winston Churchill, who did not become prime minister to preside over the dissolution of the British Empire (but who did), de Gaulle has had his turn at personal rule. Like Churchill, he was rejected by popular vote of his own people. Both men, with considerable ability, and the best of nationalist intentions,

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failed to check the break up of the British and French Empires. Both failed in their efforts to halt the downward drift of the disintegrating Western world.

Churchill made history and wrote history. De Gaulle was part and parcel of the present-day trend which is carrying Western Europe toward the historical scrap-heap.

For centuries France was top dog in Western Europe. For a hundred years, from 1815 to 1914, the sun never set on the Union Jack. Both nations are moving with the ebb tide of Western civilization toward the new Dark Ages. In a very real sense they are helping to create a situation in which the Peking-Moscow power-contest can have top priority among major world events.

Bad Words for Switzerland

London's rather conservative *Observer* has printed a story about Switzerland under the title "Tax-Dodgers Paradise." The essence of the story is stated in the sub-title: "Switzerland is firmly on the side of people who have Cadillacs, who are entitled to have Cadillacs, who are thrifty or tough enough to pay for Cadillacs. In a world that seems increasingly anxious to grind the faces of the rich, Switzerland is determinedly out of step."

It is not only out of step. It is on its way to oblivion with the free enterprise society which made it a playground for the rich and a safe-deposit drawer for the papers which give the rich legal title to exploit.

This confrontation of the rich and the poor has challenged human society in one civilization after another. The rich have shaped and filled their honey pot, and surrounded it with every known safeguard.

At the outset, the many have respected the honey pot while the few enjoyed its contents. Then the many have smashed the honey pot and consumed what they could of the precious contents. This held for Chinese money-lenders, Indian maharajas, Western imperialists. The Swiss honey pot will meet the same fate.

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CORRESPONDENCE

DEFINITIONS OF SOCIALISM

The editors are to be congratulated for declaring in the October issue that the Soviet military occupation of Czechoslovakia was a "disaster." Here is an instance of arrogance, lawlessness, and stupidity by mealy-mouthed national policy-makers which has no recent parallel outside of Washington, D.C. The mealy-mouthed equivocations of some "leftists" on this outrage deserve only contempt.

I take pen in hand, however, to raise a different issue: one of semantics. We all suffer, and have long suffered, from the inadequacies of our vocabulary. I am not now referring to the unintelligible jargon and meaningless computerizing of the "behavioralists" and "empiricists" among the younger "social scientists," but rather to the standard terms we use in economics and politics.

As a non-economist and a non-socialist, I have no right to quibble over terminology. But the matter in hand is not, I believe, a quibble. I cannot fathom denunciation of "market socialism" and such statements as "Czechoslovakia was moving toward capitalism [because of] control of enterprises in the enterprises themselves, coordination through the market, and reliance on material incentives. . . . If enterprises are run by small groups with a view to maximizing profits through production of commodities for the market, you have the essential production and class relations of capitalism."

Such use of language strikes me as most unfortunate. If these time-worn words still have reference to objective reality, then surely the essence of "capitalism" is private ownership of the means of production, whether by individuals, families, or corporations, and production for the private profit of the owners. Conversely, the essence of "socialism" is public ownership of the means of production, whether by the state, the cooperatives, or the local enterprise, and production for public profit of the whole economy and all the segments thereof.

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This distinction, it seems to me, should not be blurred by imprecise references to the "market" and to "profit." Centralized economic planning under socialism is indispensable to transmute the austerity of poverty into the affluence of wealth. Once the transition is achieved, new departures are essential. Every visitor to the USSR over the years has seen consumer goods in stores all all over the land gathering dust on shelves because consumers refuse to buy them, either because they are of inferior quality or are priced too high. Rationing of goods is appropriate only under austerity. With affluence, there is no possible way to persuade or compel consumers to buy goods they do not want. Hence the necessity of adjusting production as to quality, quantity, and price, to the "market." How else can any highly productive economy, like those of the Soviet Union and Czechoslovakia, function? This has nothing to do with "capitalism."

By the same logic, the substitution of "profit" à la Liberman, as the test of plant efficiency in achieving a viable scheme of cost accounting and arriving at the most economic balance of inputs and outputs, has nothing to do with "capitalism." Fulfilling quotas set by central planners is consonant with the alleviation of scarcity. The profitability of enterprises is the only rational means of distributing plenty. "Socialism" is unimpaired so long as the profits are publicly shared, either nationally or locally, and not privately appropriated as in our system.

If the editors have evidence (none is adduced apart from the debatable case of Western investments in Yugoslavia) that *private* property for *private* profit is replacing *public* property for *public* profit in any or all of the socialist economies, the evidence should be carefully presented with the customary accuracy and clarity of MONTHLY REVIEW. And if there is no such evidence, it is a disservice to throw words around so loosely as was done in the October issue.

Frederick L. Schuman*

Comment

The key to the differences between Professor Schuman and me lies in the fourth paragraph of his letter where he says that "the

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essence of 'socialism' is public ownership of the means of production, whether by the state, the cooperatives, or the local enterprise, and production for public profit of the whole economy and all the segments thereof." This is indeed an excellent brief statement of the historic ideal of socialism. But my contention is that reality is moving away from, not toward, this ideal in the Eastern European countries. Production is increasingly for the profit of particular groups and strata—technocratically oriented managers and educationally privileged intellectuals and civil servants, to name only the most important—and I see no tendencies operating in the opposite direction. The causes are undoubtedly complex, but I believe that at the heart of the matter is a trend toward "control of the enterprises in the enterprises themselves, coordination through the market, and reliance on material incentives." Professor Schuman says he cannot fathom such a statement, and I suppose my inadequate exposition is at least partly to blame. I shall try to do better when I next return to the subject.

In the meantime, I want to make clear that I never intended to suggest that it would be a good idea to abolish markets altogether—this is a goal which pertains to the distant future—or that profitability has no place in a rational cost accounting system. The trouble is that without ideological clarity and a principled socialist policy the market can all too easily push central planning out of the driver's seat and profit can become the basis of the real incomes of privileged groups rather than an accounting concept. On the evidence available to me, these are precisely the negative phenomena which are such prominent features of the recent history of the Eastern European countries. If Professor Schuman has evidence pointing to a different conclusion, I should be delighted to give it the most careful consideration.—Paul M. Sweezy

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If a man claimed the sea, or the air, or the light as his, you would laugh at his presumption. Now, I ask you to point out to me any reason for private ownership of land, which will not act as well as a reason for private ownership of sea and air?

—*Robert Blatchford*

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(*Continued from inside front cover*)
houses (Ciencia Nueva, Ediciones Halcón, Equipo Editorial, and Ricardo Aguilera) informing us that on March 24 they were all closed down by administrative decree in spite of the fact that all their titles had been cleared with the censor. (Ciencia Nueva lists MR editor Paul Sweezy as one of its authors, on the basis of having published a Spanish translation of *The Transition from Feudalism to Capitalism* by Sweezy, Maurice Dobb and others.) The official explanation was that they had failed to meet some technicality of the press law, but the real reason was not kept secret: many of their books could be construed as "instigation to political subversion." Naturally, what was meant was that they are Marxist works, many of them the classics of Marxism. Those who wish to express their solidarity with these publishers should write to Ciencia Nueva, Cruz Verde 22, Madrid 13, Spain.

Another flagrant example of press suppression comes from Chile, which prides itself on being the most democratic country in South America. On March 25, *Punto Final,* Chilean bi-weekly of the independent Left (which happens to be printed and distributed by the same enterprise in Santiago that produces the Spanish version of MR), published a full story with photographs of the shooting-up of a group of seventy families who were attempting to occupy a plot of land in Puerto Montt, in southern Chile. Their improvised shanties were burned down, and nine people were killed by the government *carabineros.* That issue of *Punto Final* was confiscated, further publication was prohibited, and the editor-in-chief was arrested. Protests should be sent to the Chilean Embassy in Washington.

Liberation News Service (May 3) cites a story in *Le Monde* as authority for the statement that Régis Debray, author of *Revolution in the Revolution?* (an MR Press book), "is being treated more severely than most other political prisoners" in Bolivia, where he is serving a 30-year sentence for allegedly participating in Che Guevara's guerrilla force. In fact, of course, Debray is being punished for his revolutionary ideas. In this case protests should go not only to the Bolivian government but also to its real boss, the makers of U.S. policy in Washington.

Charles Bettelheim, whose communication "On the Transition between Capitalism and Socialism" appeared in the March issue, has raised a few questions about the translation, while at the same time congratulating the translator on his "excellent work." On p. 1, line 3 from the bottom: "strike me as erroneous" is stronger than he intended—"seem to me to be erroneous" would be preferable. On p. 4, line 12: substitute "to 'decipher' their significance" for "to give a 'description' of their significance." On p. 6, line 12 from the bottom: substitute "obscuration" for "obscurantism" (the editor rather than the translator is responsible for this one). On p. 7, lines 24-25: substitute "in order to oppose successfully the threat of a bourgeois restoration" for "before the threat of a bourgeois restoration can be successfully opposed." On p. 7, line 12 from bottom: "discussions" should read "indications."

This is the time of year when we must urge you, if you are going to be on vacation in July and want your magazine to follow you, to be sure and send us your vacation address. The double summer issue will be delivered in early July. After that the next issue will be in September. If you are planning to be away only during August and through Labor Day, there is no need to let us know your vacation address.

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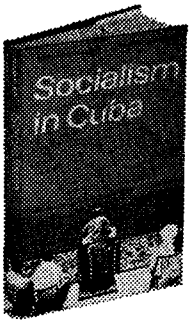

SOCIALISM IN CUBA

by

and

IS NOW AVAILABLE

Dear Paul:

Thank you very much for sending me a copy of your and Leo's Socialism in Cuba. *I read it, as I did your earlier book on the same subject, with the deepest interest—first because the Cuban Revolution is a crucial laboratory experiment, fairly close at hand and fairly open to inspection, and then because your analysis of the facts, economic and political, is invaluable. In that connection, your final chapter is above all praise for its imaginative courage and clear-sightedness. As well-wishers of the Cuban Revolution, it is especially hard for us to recognize the possibilities of its going astray—we have such a passionate interest in its success that we are all too prone to minimize the errors that may compromise that very success.*

I wonder how the book will be received in Cuba. Given the pressures of practical political action, both objective and psychological, Castro and the ruling group generally may simply not be in a position to take its message to heart. But Castro is such an extraordinary man, the Revolution has generated such an extraordinary spirit, that it might be hoped that from your book or from his own experience he might be able to draw the moral you point to. From that to the implementation of a policy of broadening the participation of the masses in social planning and control is of course an enormous step. But, as you imply, a hopeful future for Cuba and for mankind seems to depend on an earnest effort to enlist the people most fully in the administration of their own lives.

Sincerely,
Emile Capouya

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